May 31

1967 OPERATIONAL & STATISTICAL REVIEW

Including Longform Report and Robert Morris Questionnaire

W. Anderson

AVCO

DELTA CORPORATION

FINANCIAL SERVICES DIVISION OF AVCO CORPORATION

AVCO DELTA CORPORATION AND SUBSIDIARIES

STATISTICAL HIGHLIGHTS*

	May 31, 1967	1966	1965	1964**	1963	1962	1961	1960	1959	1958
Receivables Outstanding	$490,667	$448,930	$338,608	$227,485	$163,468	$105,880	$ 71,932	$ 57,071	$ 45,715	$ 32,548
Capital Funds	163,341	157,546	144,073	54,596	42,802	21,632	16,692	14,764	11,819	8,706
Net Worth	109,705	106,169	89,534	26,569	26,197	11,498	8,309	7,514	6,190	5,855
Deferred Income	57,694	51,441	36,624	24,573	15,696	6,412	3,832	3,278	2,782	2,225
Total Volume	272,007	514,455	372,332	273,515	224,517	156,851	108,043	92,033	77,153	32,072
Gross Income	34,671	57,928	41,198	27,476	21,248	13,135	9,328	7,075	5,090	2,214
Earnings before Income Tax	6,870	10,875	8,073	5,026	4,130	1,817	967	930	583	467
Provision for Taxes	3,250	5,588	4,046	2,330	1,950	836	500	482	275	227
Earnings before Minority Int.	3,620	5,287	4,027	2,696	2,180	981	467	448	308	240
Offices:										
Automotive	24	25	25	28	29	22	22	17	16	17
Capital Equipment	6	6	5	5	4	2	2	—	—	—
Farm Equipment	10	10	—	—	—	—	—	—	—	—
Home Improvement	28	28	29	18	11	—	—	—	—	—
Banking	19	15	8	5	4	—	—	—	—	—
Insurance	7	7	6	6	8	6	1	—	—	—
Canadian Finance	259	248	211	150	122	99	77	54	37	15
U.S. Finance	93	87	70	—	—	—	—	—	—	—
Total Offices	446	426	354	212	178	129	102	71	53	32

*Figures from 1958 to 1964 are those of Avco Delta Corporation Canada Limited and have been converted to United States Dollars at appropriate rates of exchange.

**Eleven month period due to fiscal year end change from December 31 to November 30.

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SECTION 1

REVIEW OF OPERATIONS

HIGHLIGHTS OF SIX MONTHS 1967

EARNINGS

Net earnings after dividends to minority interest for the six months period ending May 31, 1967 increased 23% to $3,484,000 from $2,825,000 for the six months period ended May 31, 1966.

	May 31/67	May 31/66	% Change
Gross Income	34,671,000	27,736,000	25%
Net Earnings after tax	3,620,000	3,037,000	19%
Net Earnings after tax & dividends to minority interest	3,484,000	2,825,000	23%

Deferred income increased 12% from year end and represents 15.2% ($57,694,000) of receivables on which interest is not separately stated, which compares with 14.8% ($51,441,000) at November 30, 1966.

RECEIVABLES

Receivables increased 9% to $490,667,000 from $448,930,000 at November 30, 1966.

Retail installment loans and loans increased 6.1% and 9.6% respectively.

	May 31/67	Nov. 30/66	% Change
Retail installment	251,834,000	237,440,000	6.1%
Loans	196,374,000	179,110,000	9.6%
Wholesale (on Avco New Idea Farm Equipment)	31,359,000	21,198,000	47.9%
Other wholesale & miscellaneous	11,100,000	11,181,000	-

DEVELOPMENT

During the period 21 new offices were opened, of which 17 were in the Loan Divisions. In addition 4 new offices were opened in Avco Thrift - California and 1 office in the Automotive Division was closed. This produced a net increase of 20 branches to 446.

FINANCIAL

Bank lines stand at an all time high of $193,270,000.

During the period $44,210,000 of senior and $4,000,000 of senior subordinated long term debt was closed. In addition the company is negotiating to place $15,400,000 of senior subordinated and $16,162,500 of junior subordinated long term debt.

DELINQUENCIES & LOSSES

Delinquencies have continued very favourably and loss to liquidation after recoveries for the first six months of 1967 has decreased to 1.30% which compares with a loss to liquidation for the year 1966 of 1.39%.

Additional statistical highlights comparing the first six months of 1967 with figures for previous years are outlined on the previous page.

H. P. Paterno - President

HISTORY AND BUSINESS

Avco Delta Corporation acquired control of Avco Delta Corporation Canada Limited (formerly Delta Acceptance Corporation Limited) in December 1964. Avco Delta Canada and its subsidiaries were, at the time of acquisition by Avco Delta, engaged in the finance business throughout Canada and the United States. As of May 31, 1967 more than 98% of the outstanding voting shares of Avco Delta Canada were owned by Avco Delta.

The business activities of Avco Delta and its subsidiaries are presently being conducted through eight major divisions operating in both the United States and Canada. Details as to the business carried on by each separate division are set out below:

AUTOMOTIVE DIVISION

The Automotive Division operates in the name of Avco Delta Corporation Canada Limited and its subsidiary Avco Delta Dominion Limited. This division acquires retail installment sales contracts covering the purchase by consumers of automobiles, mobile homes, commercial vehicles and other durable goods. Wholesale advances on automobiles and mobile homes and direct loans to dealers are also provided by the division. This division now operates 24 branches in seven Canadian provinces. As of May 31, 1967 its outstanding receivables totalled approximately $68,000,000.

CAPITAL EQUIPMENT DIVISION

This division also operates in the names of Avco Delta Corporation Canada Limited and Avco Delta Dominion Limited, and it provides financing for industrial and commercial accounts covering a broad range of revenue producing machinery and equipment. As of May 31, 1967 this division operated six branches in five Canadian provinces and had total outstanding receivables of approximately $32,500,000.

CONSUMER FINANCE DIVISION - CANADA

The Canadian Consumer Finance Division operates in the name of Avco Finance Limited (formerly The Crescent Finance Company, Limited). This division specializes in consumer loans, more than 90% of which are secured by automobiles and/or household goods. In addition, this division operates in the sales finance field by purchasing retail installment sales obligations from dealers covering appliances and other consumer goods. As of May 31, 1967 the Canadian Consumer Finance Division operated 259 branches in all Canadian provinces. Its receivables totalled approximately $143,200,000.

CONSUMER FINANCE DIVISION - UNITED STATES

This division consists of Avco Finance Company and its local subsidiaries. The U.S. Consumer Finance Division also specializes in the consumer loan and sales finance fields, with approximately 90% of its loans being secured by automobiles and/or household goods. As of May 31, 1967 this division had 93 branch offices located in ten states, and its receivables totalled approximately $50,300,000.

BANKING DIVISION

This division includes the Colorado Industrial Bank, seven other industrial banks and other financial offices engaged in the consumer loan and sales finance fields in Colorado. The industrial banks also accept savings and time deposits. The division includes Avco Thrift, a California industrial loan company which has deposit and loan powers very similar to those of the industrial banks. As of May 31, 1967 this division operated 19 offices and had total receivables of approximately $41,800,000.

HOME IMPROVEMENT DIVISION

The Home Improvement Division consists of Avco Delta Corporation of Massachusetts and its affiliated companies. They specialize in the financing of home improvements by purchasing customers' notes from building contractors and dealers. The notes are generally secured by supplementary mortgages on the homes involved. In addition, the division discounts and makes loans to home owners secured by real property which security is usually subordinate to other liens. As of May 31, 1967 this division operated a total of 28 offices in 13 states and had receivables totalling approximately $108,600,000.

FARM EQUIPMENT DIVISION

This division consists of Avco New Idea Credit Corporation, which was incorporated in 1966 to offer credit services to dealers franchised by the Avco New Idea Farm Equipment Division of Avco Corporation and customers of these dealers. The division acquires retail installment contracts covering the purchase of farm equipment and provides wholesale advances to farm equipment dealers. As of May 31, 1967 the division operated a total of ten branches in nine states and one branch in Ontario, Canada. At that date its receivables totalled approximately $46,300,000.

INSURANCE DIVISION

In Canada the Company operates London and Midland General Insurance Company and Adanac General Insurance Company of Canada. Both companies are permitted to write all forms of insurance other than life in all provinces of Canada. Annual premiums written are approximately $12,000,000 and are basically written through independent insurance agents. In the U.S. the Company also operates two credit life and disability insurance companies and four insurance agencies.

The following table indicates the extensive geographical distribution of the Company's offices and gross receivables outstanding at May 31, 1967 and November 30, 1966.

CANADA	Percent of Receivables Outstanding 1967	Percent of Receivables Outstanding 1966	Total Offices 1967	Total Offices 1966	Division Offices 1967: Automotive	Capital Equip.	Canadian Finance	Insurance
Alberta	6.3%	6.2%	22	22	2	2	17	1
British Columbia	7.3	8.0	29	28	5	1	22	1
Manitoba	1.9	1.8	12	11	1	1	9	1
New Brunswick	2.7	2.9	22	22			22	
Newfoundland	2.2	2.1	17	17			17	
Nova Scotia	2.9	3.5	25	26	1		24	
Ontario	15.9	17.4	103*	100*	10	1	89	2
P.E.I.	.3	.3	3	3			3	
Quebec	7.6	7.5	50	44	3	1	44	2
Saskatchewan	2.3	2.3	14	14	2		12	
	49.4	52.0	297	287	24	6	259	7

UNITED STATES	Percent of Receivables Outstanding 1967	Percent of Receivables Outstanding 1966	Total Offices 1967	Total Offices 1966	Home Improve.	U.S. Finance	Farm Equip.	Banking
Arizona	.1	.1	2	2		2		
California	2.2	2.1	10	6				10
Colorado	7.6	7.9	19	18		10		9
Connecticut	1.5	1.6	2	2	2			
Georgia	.8	.4	1	1	1			
Illinois	2.7	2.3	7	7		6	1	
Indiana	.8	.8	4	4	1	3		
Iowa	4.9	4.4	29	27		28	1	
Kansas	.8	.7	4	4		3	1	
Maine	1.6	1.7	3	3	3			
Massachusetts	2.1	2.9	2	2	2			
Michigan	1.9	1.2	2	2	1		1	
Minnesota	.9	.7	1	1			1	
Missouri	1.4	1.2	11	10	1	10		
Nebraska	3.1	3.1	23	23		23		
New Hampshire	1.6	1.9	2	2	2			
New York	7.0	7.4	6	6	5		1	
North Carolina	.5	1.1	2	2	1		1	
Ohio	5.3	3.0	12	10	6	5	1	
Pennsylvania	2.6	2.3	3	3	2		1	
Rhode Island	1.0	1.0	1	1	1			
Wyoming	.2	.2	3	3		3		
	50.6	48.0	149	139	28	93	10*	19
	100.0%	100.0%	446	426				

* Includes one Farm Equipment Office located in Ontario, Canada.

MANAGEMENT

Regardless of its field of endeavour, no company can be successful without having adequate management, continuity of management and related management controls. This fact holds particularly true in a company enjoying rapid growth such as Avco Delta. The following sections describe some of the details of the Company's management organization as well as some of the significant features of its management controls.

A. MANAGEMENT ORGANIZATION

During its earlier stages of growth the Company was particularly successful in attracting trained and experienced finance personnel from the industry. These men were aggressive and eager to join a young growing company offering maximum opportunities.

The Company has extensive job training programs. Currently, more than 90% of all branch management is being generated from within. Most of the branch personnel have to complete various on-the-job training courses and pass written and verbal tests before qualifying for advancement in either salary or position. The Company has also established formal training branches and schools in various locations. Without this training and resultant continuity of management, the Company could not possibly have attained its rate of growth on a soundly controlled and profitable basis. It is a matter of pride with the Company that every operational employee has started in the finance business at the minimum branch level position and performed all job functions up to his current assignment.

Resumes of Avco Delta's senior executives are listed below:

R.W. Yantis - Chairman of the Board, 20 years experience in the finance industry, joined Delta as President in 1956 after previous employment with General Finance and Fruehauf Trailer Finance; married, age 44.

H.P. Paterno - President, 18 years experience in the finance industry, joined Delta in 1959 after previous employment with General Finance and Fruehauf Trailer Finance; married, age 42.

H.S. Tennant - Executive Vice-President, joined Delta as Vice-President of the Consumer Finance Division in 1958 after 20 years experience with Household Finance; married, age 53.

R.C. Dannecker - Executive Vice-President, joined Delta in 1956 as Vice-President and General Manager of the Acceptance Division after 10 years experience with General Finance and Fruehauf Trailer Finance; married, age 43.

C.J. Connell - Group Vice-President, Insurance Division, joined Delta in 1961 as General Manager of the Insurance Division after 10 years experience with Motors Insurance Corporation and American Plan Corporation; married, age 38.

R.A. Anderson - Vice-President and General Manager, Canadian Consumer Finance Division, joined the Company in 1959 after more than 10 years experience in the finance industry with Household Finance, responsible for the Division's Eastern Operations; married, age 40.

M.H. Bailey - Vice-President and General Manager, Capital Equipment Division, joined Delta in 1965 after 15 years of finance experience with the Canadian Imperial Bank of Commerce and Canadian Acceptance Corporation (CIT); married, age 38.

T.M. Cumming - Vice-President and General Manager, U.S. Consumer Finance Division, joined the Company in 1959 and has more than 16 years experience in the finance industry including 9 years with Household Finance; married, age 38.

H.E. Dickerson - Vice-President and General Manager, Farm Equipment Division, 16 years experience in the finance industry, joined Delta in 1959 after securing experience with General Finance and Fruehauf Trailer Finance; married, age 38.

W.A. Gallaway - Vice-President and General Manager, Automotive Division, joined Delta in 1958 and has more than 13 years experience in the finance industry including 5 years with Canadian Acceptance Corporation (CIT); married, age 37.

R.M. Hett - President and General Manager, Home Improvement Division, has more than 13 years finance industry experience, joined Delta in 1960 after securing experience with Niagara Finance and G.M.A.C.; married, age 35.

K.R. Kirkpatrick - Vice-President and General Manager, Insurance Division, joined London and Midland in 1962 as Assistant General Manager, after more than 9 years experience with Union Insurance Society of Canton; married, age 45.

S. Nemirow - President and General Manager, Thrift Division, started with Colorado Industrial Bank in 1948 and progressed through all supervisory and executive capacities prior to becoming General Manager in 1966; married, age 46.

C.L. Newton - Vice-President and General Manager, Canadian Consumer Finance Division, has more than 20 years experience in the finance industry, joined the Company in 1958 after being with Household Finance and Citizens Finance, responsible for the Division's Western Operations; married, age 44.

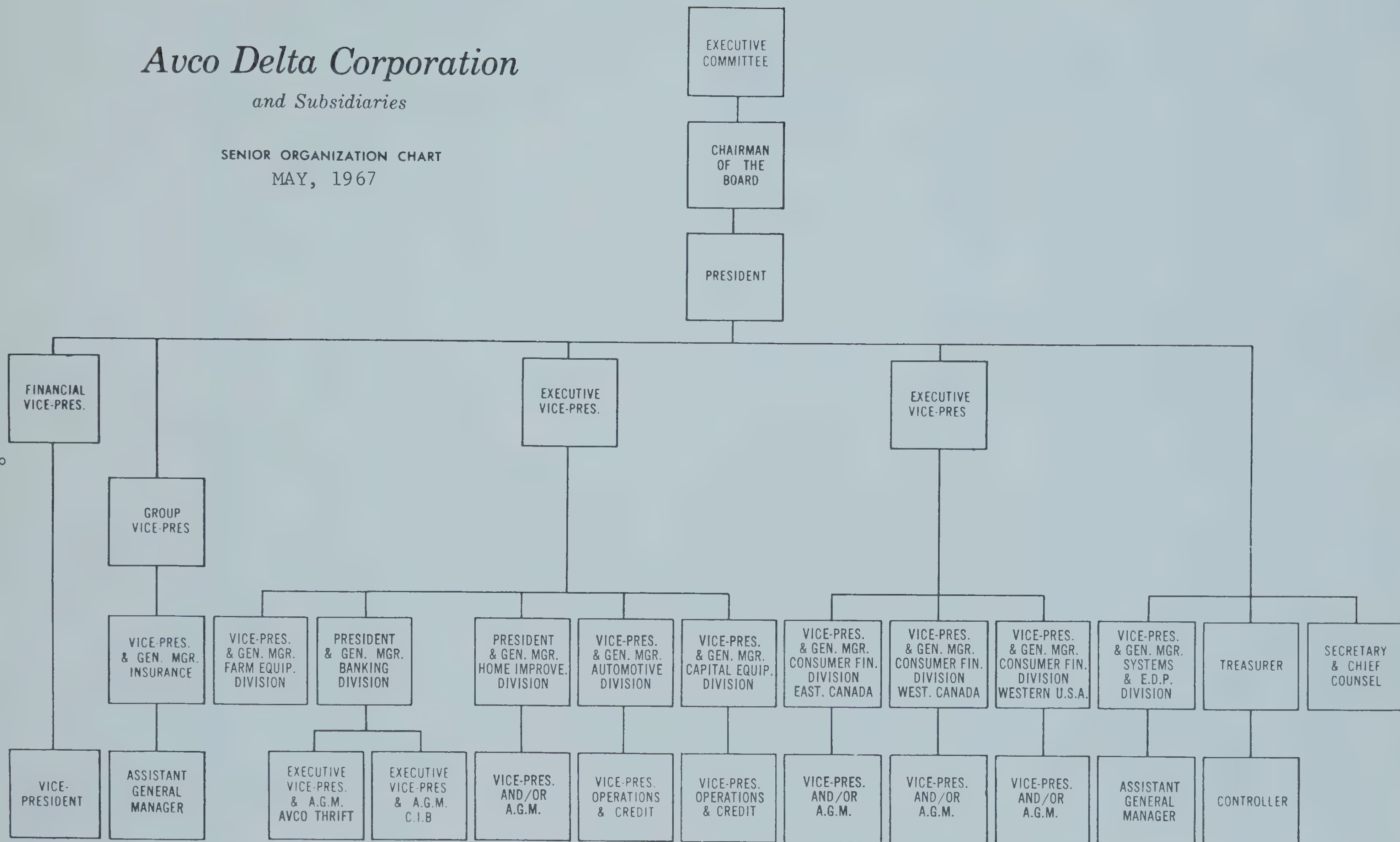
T. Jackson - Executive Vice-President, Banking Division, started with Colorado Industrial Bank in 1948 and progressed through all supervisory and executive capacities prior to becoming Executive Vice-President of the Banking Division in 1963; married, age 45.

Avco Delta Corporation

and Subsidiaries

SENIOR ORGANIZATION CHART

MAY, 1967



B. MANAGEMENT CONTROLS

Management control is exercised through a well defined management organizational structure. Because of the rapid growth of the company, this structure is continually revised as the need for new responsibilities or functions develop.

The organizational structure varies among the divisions; however, on the average each regional manager directly supervises approximately nine branches. Depending upon the individual division a branch will receive from two to five regular inspections a year. This number may be doubled by additional special visits.

An essential element of the organizational control is the separation of both the accounting and data processing functions from the line organization. These departments report directly to the president. Other areas through which management maintains control are:

Credit Approval Structure

Each division has a well defined and controlled credit approval structure. The structure is designed to allow routine credit decisions to be made at the branch level and progressively higher limits of credit approval to be controlled by more senior management. The credit approval structure of the Capital Equipment Division, which makes the largest individual loans in the Company, is set out below:

Credit Limit	Required Approval
$30,000	Branch Manager
$45,000	Branch Manager and District Manager
$75,000	Any two of - General Credit Manager - V.P. Operations & Credit - General Manager
over $75,000	1. One of General Credit Manager or V.P. Operations & Credit 2. General Manager 3. One of - Chairman of the Board - President - Executive V.P.

A general policy of the division is to advance no more than $250,000 to any one customer.

Management Audit

The company has developed a Management Audit Department which reports directly to the Audit Committee of the Board of Directors and whose primary function is to assist management in appraising performance and in safeguarding assets. The management audit program is co-ordinated with that of Arthur Young & Company, the Company's public auditors. Each year approximately 1/3 of the Company's offices receive surprise audits under the combined programs.

The management audit program includes direct confirmation, on a test basis, of customer accounts. Controlled statistical sampling is used so that inferences can be drawn as to the nature of the accounts as a whole in the offices tested.

Accounting and Statistical Data

The company has one of the most sophisticated accounting and data processing centres in the industry. Under the system all branch records are duplicated on head office data processing equipment within 96 hours of the transaction. With this centralized control of records the accounting and data processing centres are able to provide the various levels of management with key operating statistics on a daily, weekly and monthly basis. Some of the monthly statistics supplied to the Automotive Division are as follows:

1. Branch profit and loss statements comparing budget and actual.
2. Deferred income based on a separate calculation for each retail account.
3. Audited delinquency figures on all retail accounts.
4. Listings of selected detail of all retail and wholesale accounts including any differences between head office and branch balances.
5. Wholesale ageing.
6. Individual account listings of repossession liquidation indicating, where applicable, the related loss.

Various other vital statistics are produced monthly on the basis of each dealer, branch and region as well as for the division as a whole. Excerpts of these reports are set out on the following page.

YEAR:

ANALYSIS OF AUTOMOTIVE DIVISION — PART 1.

BR. / DLR.:

MONTH	TOTAL OUTSTANDING			EXT. % TO O/S	DELINQ. 30+ % TO O/S	DLR. RESERVE		WHOLESALE					REPO. FREQ.		% YIELD		
	# OF ACCOUNTS	AMOUNT	AVG. BAL.			REG. & SPEC.	H.B.	LIQUI-DATIONS	OUTSTANDING		AGED - 6 MO. +		UNITS	AMT.	ANTIC-IPATED	ACTUAL	ACTUAL AFTER LOSSES
									NEW	USED	NEW	USED	% TO O/S	% TO O/S			

MONTH	VOLUME						CREDIT LOSSES — DOLLARS				L.H.A. INSURANCE — DOLLARS		
	AUTO.	MOBILE HOME	COMMERCIAL VEHICLE		OTHER	TOTAL	GROSS	RECOVERIES	NET	% TO LIQU.	PREMIUMS	LOSSES	% LOSS RATIO
			NEW	USED									

MONTH	VOLUME (DOLLARS)	% DOWN PAY.		% OF VOLUME				ADV. TO DLR. COST		% YIELD		OUTSTANDING		REPO. FREQ.	
		LESS THAN 25%	LESS THAN 15%	BALLOON	IRREG.	OVER 36 MOS	DOUBLE HEADER	101% TO 105%	106% & OVER	ANTIC-IPATED	ACTUAL	UNITS	AMOUNT	UNITS	AMT.
														% TO O/S	% TO O/S

ANALYSIS OF AUTOMOTIVE DIVISION — PART II

BR./DLR.:

YEAR :

MONTH	# OF RETAIL ACCOUNTS	ACCOUNTS EXTENDED - VOLUME				TOTAL EXTENDED ACCOUNTS - THOUSANDS								AVG. MAT.
		ACCOUNTS		DOLLARS		30 DAYS		60 DAYS		90 DAYS		OVER 90 DAYS		
		#	% TO O/S	AMOUNT	% TO O/S	AMOUNT	% TO O/S	AMOUNT	% TO O/S	AMOUNT	% TO O S	AMOUNT	% TO O S	

MONTH	RETAIL NOTES REC.	OTHER NOTES REC.			EARNINGS % TO F.E.	ACCTS PER EMP.	EXP. PER 100 ACCTS	EXP. PER $1000 F.E.	RETAIL NOTES O/S STATISTICS - THOUSANDS							
		WHOLESALE	CAPITAL LOANS	% TO RETAIL					LEASE		DEMONSTRATOR		RE-FINANCE		BALLOON	
									AMOUNT	% TO O S	AMOUNT	% TO O/S	AMOUNT	% TO O/S	AMOUNT	% TO O/S

MONTH	INCOME				CREDIT LOSSES	NET INCOME	GROSS DEALER RESERVE	% YIELD	MISCELLANEOUS VOLUME STATISTICS							
	EARNED DISCOUNT	WHOLESALE INTEREST	CAP. LOAN INTEREST	MISC.					ORIGINAL TERM			% LEASE	% DEMO.	% RE-FIN.	BALLOON	
									% 1-36	% 37-60	% 61 +				%	AVG TM.

MONTH	REPOSSESSION VOLUME				REPOSSESSIONS ON HAND				REPOSSESSION LOSSES - % TO LIQUIDATIONS						TOTAL VOLUME
	UNITS		AMOUNT		UNITS		AMOUNT		NEW AUTO	CURRENT USED AUTO	NON-CUR. USED AUTO	ALL OTHER	TOTAL		
	#	% TO O S	DOLLARS	% TO O S	#	% TO O S	DOLLARS	% TO O S					%	DOLLARS	

SECTION 2

FINANCIAL STATEMENTS AND LONGFORM REPORT

AVCO DELTA CORPORATION

CONSOLIDATED FINANCIAL POSITION

ASSETS

	May 31, 1967	November 30, 1966	May 31, 1966
Cash	$ 20,741,281	$ 33,913,157	$ 19,138,944
Marketable securities at cost (approximate market)	2,194,285	333,338	941,234
Receivables (including amounts due after one year):			
Retail installment	251,833,517	237,440,098	207,115,148
Loans	196,374,254	179,110,320	155,440,272
Wholesale (on Avco New Idea Farm Equipment)	31,358,732	21,198,369	-
Other wholesale and miscellaneous	11,100,389	11,181,029	11,285,425
	490,666,892	448,929,816	373,840,845
Unearned discount and service charges	(57,694,136)	(51,440,572)	(42,490,983)
Allowance for losses	(8,463,063)	(7,574,032)	(6,509,938)
Net receivables	424,509,693	389,915,212	324,839,924
Other current assets	3,380,753	3,193,659	3,189,845
TOTAL CURRENT ASSETS	450,826,012	427,355,366	348,109,947
Net assets of insurance subsidiaries (Note 1)	6,989,232	6,838,249	5,686,066
Property and equipment and deferred expenses at cost less accumulated depreciation and amortization	3,754,474	3,834,819	3,628,134
Investment in non-consolidated subsidiaries	-	-	1,762,472
Excess of cost of investments in subsidiaries over acquired equity in net assets being carried without amortization	55,388,355	55,307,251	54,381,010
TOTAL ASSETS	$516,958,073	$493,335,685	$413,567,629

LIABILITIES AND STOCKHOLDER EQUITY

	May 31, 1967	November 30, 1966	May 31, 1966
Notes payable:			
Banks	$ 76,085,000	$ 93,710,000	$ 77,085,750
Commercial paper	97,734,500	102,930,300	68,437,000
Long term debt installments due within one year	6,577,938	6,820,250	5,575,251
Savings deposits	13,605,722	14,167,103	8,962,108
Accounts payable and accrued liabilities	6,991,369	7,323,770	4,345,201
U.S. federal and Canadian income taxes	2,204,504	2,571,740	2,128,282
Dealers' reserves and holdbacks	7,945,709	7,085,996	1,507,866
TOTAL CURRENT LIABILITIES	211,144,742	234,609,159	168,041,458
Long term debt (Note 2)	191,361,751	147,693,901	136,081,999
Minority interest in subsidiary	4,747,035	4,863,764	6,832,133
Stockholder equity (Note 1):			
Capital stock, no par value Authorized 1,000 shares Issued and outstanding 838 shares	33,850,000	33,850,000	33,850,000
Additional paid-in capital	63,908,664	63,857,180	62,375,330
Retained earnings (Note 3)	11,945,881	8,461,681	6,386,709
TOTAL STOCKHOLDER EQUITY	109,704,545	106,168,861	102,612,039
TOTAL LIABILITIES AND STOCKHOLDER EQUITY	$516,958,073	$493,335,685	$413,567,629

See accompanying notes

AVCO DELTA CORPORATION

CONSOLIDATED EARNINGS

	Second Quarter Ending May 31, 1967	Six Months Ending May 31, 1967	Second Quarter Ending May 31, 1966	Six Months Ending May 31, 1966
Revenues:				
Interest, discount and service charges of finance companies	$17,292,145	$33,927,932	$13,629,565	$26,887,204
Income of insurance subsidiaries before income taxes	434,425	743,039	509,459	849,488
	17,726,570	34,670,971	14,139,024	27,736,692
Expenses:				
Interest and debt expense	5,367,373	10,789,197	4,130,205	8,179,536
Provision for losses on collection of receivables	1,849,048	3,496,854	1,307,049	2,246,353
Other operating expenses (including depreciation of $247,692 in 1967 and $266,789 in 1966)	6,738,359	13,515,217	5,505,391	11,304,636
U.S. federal and Canadian income taxes	1,735,000	3,250,000	1,598,438	2,968,712
	15,689,780	31,051,268	12,541,083	24,699,237
Earnings before minority interest	2,036,790	3,619,703	1,597,941	3,037,455
Preferred stock dividends paid by subsidiary	67,788	135,503	100,821	211,869
NET EARNINGS	1,969,002	3,484,200	1,497,120	2,825,586
Retained earnings at the beginning of the period	9,976,879	8,461,681	4,889,589	3,561,123
Retained earnings at the end of the period (Note 3)	$11,945,881	$11,945,881	$ 6,386,709	$ 6,386,709

See accompanying notes

AVCO DELTA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Principles of consolidation

Avco Delta Corporation is a wholly-owned subsidiary of Avco Corporation. Avco assists Avco Delta in arranging and obtaining financing, and Avco Delta purchases wholesale receivables acquired by Avco in the sale of farm equipment; in all other material respects the operations of Avco Delta are separate and distinct from those of Avco.

The consolidated financial statements include the accounts of all subsidiaries except insurance companies; combined assets ($16,099,705 at November 30, 1966 and $16,779,044 at May 31, 1967) less combined liabilities ($9,261,456 at November 30, 1966, and $9,789,812 at May 31, 1967) of insurance companies are shown separately in the statements of consolidated financial position and their income before income taxes is shown separately in the statement of consolidated earnings.

Avco Delta Corporation ("Avco Delta"), a wholly-owned subsidiary of Avco Corporation, had no operations prior to December 7, 1964. As of that date Avco Delta acquired, through a capital contribution from Avco to its additional paid-in capital, substantially all of the outstanding common shares and a significant portion of the outstanding preference shares of Delta Acceptance Corporation Limited; Delta's name was subsequently changed to Avco Delta Corporation Canada Limited. Shares of Avco Delta's capital stock were sold to Avco for $23,800,000 and $10,000,000 cash during 1965 and 1966, respectively. Minority interest in subsidiary is represented by 5½% to 6% cumulative preferred stock $100 Canadian par value of Avco Delta Canada.

Canadian dollar amounts have been translated at the established rate of exchange of $1 Canadian = $.925 U.S. At November 30, 1966, $210,960,996 of current assets and $15,072,744 of current liabilities and long term debt were represented by accounts to be settled in Canadian funds; at May 31, 1967, these amounts were $219,039,165 and $12,289,285, respectively.

Investments in consolidated subsidiaries are carried on Avco Delta's books at $48,852,032 at November 30, 1966 and $46,536,308 at May 31, 1967 in excess of net assets shown by the books of such subsidiaries. In consolidation $54,513,632 at November 30, 1966 and $54,594,736 at May 31, 1967 have been included in excess of cost of investments in subsidiaries over acquired equity in net assets which is being carried without amortization subject to periodic review, and $5,661,600 at November 30, 1966 and $8,058,428 at May 31, 1967 (representing undistributed earnings of the consolidated subsidiaries from dates of acquisition) have been included in consolidated retained earnings. Excess of cost of investments in subsidiaries over acquired equity in net assets includes the cost of investments by a subsidiary of Avco Delta over acquired equity in net assets, $793,619 being carried without amortization. Inter-company transactions have been eliminated in consolidation.

NOTE 2 - Long term debt

At May 31, 1967 long term debt consisted of:

Senior notes payable - 5% to 6 3/4% maturing annually to October 1, 1981	$148,914,500
Senior subordinated notes payable - 5 1/4% to 6½% maturing annually to September 1, 1981	31,636,563
Junior subordinated notes payable - 5 5/8% to 6 3/4% maturing annually to November 15, 1980	17,252,188
Sinking fund debentures- 5½% due March 1, 1968	136,438
	197,939,689
Installments due within one year (included in current liabilities)	(6,577,938)
	$191,361,751

At May 31, 1967, Avco Delta had firm commitments from lenders for the placement of $12,300,000 of long term debt; $5,600,000 in 1967 and $6,700,000 in 1968. In addition, subsequent to May 31, 1967 firm commitments have been received from lenders for $15,400,000 of senior subordinated debt and $16,162,500 of junior subordinated debt. Of this commitment of $16,162,500, $1,000,000 represents new lending and $15,062,500 represents a roll down of debt from senior and senior subordinated.

NOTE 3 - Retained earnings

Under the agreements relating to the notes payable approximately $4,000,000 of Avco Delta's consolidated retained earnings at May 31, 1967 ($7,400,000 at November 30, 1966) was not restricted as to the payment of cash dividends on capital stock.

SUPPLEMENTARY INFORMATION AND

STATISTICAL ANALYSES

COMPARATIVE SUMMARY OF OPERATIONS

The following summary shows the consolidated results of operations for the six months ended May 31, 1967 in comparison with the six months ended May 31, 1966

	1967		1966		
	Amount	Percentage of total income	Amount	Percentage of total income	Increase or (decrease)
Income					
Interest, discount and service charges of finance companies	$33,927,932	97.9%	$26,887,204	96.9%	1.0%
Income of insurance subsidiaries before income taxes	743,039	2.1	849,488	3.1	(1.0)
	34,670,971	100.0	27,736,692	100.0	-
Expenses					
Interest and debt expense	10,789,179	31.1	8,179,536	29.4	1.7
Provision for losses on collection of receivables	3,496,854	10.1	2,246,353	8.1	2.0
Other operating expenses	13,515,217	39.0	11,304,636	40.8	(1.8)
U.S. federal and Canadian income taxes	3,250,000	9.4	2,968,712	10.7	(1.3)
	31,051,268	89.6	24,699,237	89.0	.6
Earnings before minority interest	3,619,703	10.4	3,037,455	11.0	(.6)
Preferred stock dividends paid by subsidiary	135,503	.4	211,869	.8	(.4)
Net earnings	$ 3,484,200	10.0%	$ 2,825,586	10.2%	(.2)%

STATEMENT OF CONSOLIDATED EARNINGS
(Thousands of Dollars)

	6 months ended May 31, 1967	Avco Delta Corporation and its subsidiaries — Years ended November 30, 1966	1965
Income			
Interest, discount and service charges of finance companies	$33,928	$55,883	$40,317
Income of insurance subsidiaries before income taxes	743	2,045	881
	34,671	57,928	41,198
Expenses			
Interest and debt expense	10,789	17,697	11,716
Provision for losses on collection of receivables	3,497	6,345	5,211
Other operating expenses including depreciation	13,515	23,011	16,198
U.S. federal and Canadian income taxes	3,250	5,588	4,046
	31,051	52,641	37,171
Earnings before minority interest	3,620	5,287	4,027
Preferred stock dividends paid by a subsidiary (Avco Delta Corporation Canada Limited)	135	386	466
Net earnings	$ 3,484	$ 4,901	$ 3,561

Avco Delta Corporation Canada Limited and its subsidiaries						
Eleven months ended November 30	Years ended December 31,					
1964	1963	1962	1961	1960	1959	1958
$27,107	$20,956	$12,979	$ 9,265	$ 7,060	$ 5,090	$ 2,214
369	292	156	63	15		
27,476	21,248	13,135	9,328	7,075	5,090	2,214
8,149	6,664	4,523	3,128	2,563	1,735	560
3,456	2,148	1,761	1,429	842	576	235
10,845	8,306	5,034	3,804	2,740	2,196	952
2,330	1,950	836	500	482	275	227
24,780	19,068	12,154	8,861	6,627	4,782	1,974
2,696	2,180	981	467	448	308	240
*	*	*	*	*	*	*
$ 2,696	$ 2,180	$ 981	$ 467	$ 448	$ 308	$ 240

* Preferred stock dividends did not enter into the determination of net earnings of Avco Delta Corporation Canada Limited.

Note (1) Exchange adjustments resulting from the depreciation of the Canadian dollar in relation to the U.S.dollar have been charged as "special items" to retained earnings as follows: 1960 - $587,000, 1961 - $1,046,000, 1962 - $1,108.000

(2) Avco Delta Corporation net earnings are shown above for the years ended November 30, 1966 and 1965 together with the net earnings of Avco Delta Corporation Canada Limited for prior periods.

FINANCIAL POSITION

Set out below are details of certain of the assets and liabilities shown on the consolidated financial position as at May 31, 1967.

RECEIVABLES		$490,666,892	
LESS - UNEARNED DISCOUNT			
AND SERVICE CHARGES	$57,694,136		
- ALLOWANCE FOR LOSSES	8,463,063	66,157,199	$424,509,693

Receivables at May 31, 1967 and November 30, 1966 comprise:

	May 31, 1967	November 30, 1966
Retail installment	$251,833,517	$237,440,098
Loans	196,374,254	179,110,320
Wholesale - (on Avco New Idea Farm Equipment)	31,358,732	21,198,369
Other wholesale	9,097,840	8,951,215
Capital loans	1,038,208	1,290,289
	489,702,551	447,990,291
Accrued interest	964,341	939,525
	$490,666,892	$448,929,816

Statistical analyses of contracts receivable as to type of collateral, volume and liquidation and delinquency as summarized from the Company's records are as follows:

ANALYSIS OF CONTRACTS RECEIVABLE, VOLUME AND LIQUIDATION

BY TYPE OF COLLATERAL

Kind of Paper	Balance November 30, 1966	%
RETAIL INSTALLMENT:		
New automobiles	$ 32,810,973	7.32%
Used automobiles	14,836,566	3.31
Mobile homes	5,227,460	1.17
Capital equipment	31,109,487	6.94
Home improvement	100,644,702	22.47
Farm equipment	9,321,283	2.08
Conditional sales contracts - consumer loan divisions	35,340,182	7.89
Other	8,149,445	1.82
Total retail	237,440,098	53.00
LOANS (excluding accrued interest):		
Automobiles	8,038,925	1.79
Household goods	85,388,429	19.06
Household goods and automobiles	53,690,030	11.99
Other	31,992,936	7.14
Total loans	179,110,320	39.98
WHOLESALE (excluding accrued interest):		
New automobiles	6,897,758	1.55
Used automobiles	278,794	.06
Mobile homes	503,227	.11
Farm equipment	21,198,369	4.73
Other	1,271,436	.28
Total wholesale	30,149,584	6.73
CAPITAL LOANS TO DEALERS (excluding accrued interest)	1,290,289	.29
TOTAL RECEIVABLES (excluding accrued interest)	447,990,291	100.00%
ACCRUED INTEREST	939,525	
	$448,929,816	

Volume of contracts purchased during the year	Liquidation during the year	Balance May 31, 1967	%
$ 12,233,828	$ 14,603,994	$ 30,440,807	6.22%
6,158,137	7,918,618	13,076,085	2.67
2,174,285	1,453,686	5,948,059	1.21
13,579,881	12,167,617	32,521,751	6.64
29,936,888	21,992,919	108,588,671	22.17
9,964,676	4,379,363	14,906,596	3.05
27,045,310	25,116,997	37,268,495	7.61
4,555,988	3,622,381	9,083,052	1.86
105,648,993	91,255,575	251,833,516	51.43
5,559,988	5,232,693	8,366,220	1.71
61,979,165	55,610,941	91,756,653	18.74
39,360,495	29,507,274	63,543,251	12.97
18,834,372	18,119,178	32,708,130	6.68
125,734,020	108,470,086	196,374,254	40.10
25,711,220	25,350,445	7,258,533	1.48
1,180,510	1,166,443	292,861	.06
1,409,246	1,175,402	737,071	.15
15,423,789	5,224,548	31,397,610	6.41
2,100,502	2,601,440	770,498	.16
45,825,267	35,518,278	40,456,573	8.26
133,744	385,825	1,038,208	.21
277,342,024	235,629,764	489,702,551	100.00%
24,816		964,341	
$277,366,840		$490,666,892	

ANALYSIS OF VOLUME OF BUSINESS BY TYPE OF COLLATERAL
(Thousands of Dollars)

	Avco Delta Corporation			
	Six months ended May 31, 1967	%	Year ended November 30, 1966	%
RETAIL INSTALLMENT:				
New automobiles	$ 12,234	4.4%	$ 28,095	5.6%
Used automobiles	6,158	2.2	15,034	2.9
Mobile homes	2,174	.8	3,800	.7
Capital equipment	13,580	4.9	23,991	4.7
Home improvement	29,937	10.8	53,178	10.3
Farm equipment	9,965	3.6	10,192	2.0
Other	31,601	11.4	60,996	11.8
Total retail	105,649	38.1	195,286	38.0
LOANS (excluding accrued interest):				
Automobiles	5,560	2.0	10,745	2.1
Household goods	61,979	22.3	117,924	22.9
Household goods and automobiles	39,360	14.2	61,892	12.0
Other	18,835	6.8	34,795	6.8
Total loans	125,734	45.3	225,356	43.8
WHOLESALE (excluding accrued interest):				
New automobiles	25,711	9.3	49,033	9.6
Used automobiles	1,181	.4	2,082	.4
Mobile homes	1,409	.5	2,135	.4
Farm equipment	15,424	5.6	35,017	6.8
Other	2,100	.8	5,334	1.0
Total wholesale	45,825	16.6	93,601	18.2
CAPITAL LOANS TO DEALERS (excluding accrued interest)	134	-	212	-
TOTAL VOLUME	$277,342	100.0%	$514,455	100.0%

Avco Delta Corporation Canada Limited					
Year ended November 30, 1965	%	Eleven months ended November 30, 1964	%	Year ended December 31, 1963	%
$ 29,124	7.8%	$ 31,056	11.4%	$ 22,269	9.9%
19,396	5.2	22,117	8.1	20,399	9.2
2,449	.7	2,222	.8	2,806	1.2
25,749	6.9	16,790	6.1	15,540	6.9
55,724	15.0	38,860	14.2	20,472	9.1
34,072	9.2	19,229	7.0	11,407	5.1
166,514	44.8	130,274	47.6	92,893	41.4
7,867	2.1	4,545	1.7	4,579	2.0
76,716	20.6	51,816	18.9	43,759	19.5
52,144	14.0	38,015	13.9	33,539	14.9
16,779	4.5	7,436	2.8	5,677	2.6
153,506	41.2	101,812	37.3	87,554	39.0
44,164	11.8	34,261	12.5	32,181	14.3
2,176	.6	2,858	1.0	5,724	2.6
1,726	.5	1,624	.6	3,413	1.5
3,434	.9	1,780	.7	1,545	.7
51,500	13.8	40,523	14.8	42,863	19.1
812	.2	906	.3	1,207	.5
$372,332	100.0%	$273,515	100.0%	$224,517	100.0%

ANALYSIS OF VOLUME BY DIVISION
FOR THE SIX MONTHS ENDED MAY 31, 1967

	Total	Automotive	Capital Equipment
New automobiles	$ 12,233,828	$ 12,233,828	$
Used automobiles	6,158,137	6,158,137	
Mobile homes	2,174,285	2,174,285	
Capital equipment	13,579,881		13,579,881
Farm equipment	9,964,676		
Home improvement	29,936,888		
Bulk purchases	1,587,813		
Commercial vehicles	2,538,283	2,538,283	
Other	2,017,705	2,017,705	
Conditional sales contracts	25,457,497		
Mortgage loans	14,878		
Direct loans	60,395,083		
Direct cash loans (under Consumer Loan Acts)	65,324,059		
Capital loans to dealers	133,744	133,744	
Total	231,516,757	25,255,982	13,579,881
Wholesale	45,825,267	28,496,486	
Total Volume	$277,342,024	$ 53,752,468	$ 13,579,881

Farm Equipment	Home Improvement	Banking	Canadian Consumer Finance	U.S. Consumer Finance
$	$	$	$	$
9,964,676				
	29,936,888			
			1,587,813	
		8,623,276	10,264,434	6,569,787
			14,878	
		10,420,458	42,895,871	7,078,754
		2,261,398	43,028,419	20,034,242
9,964,676	29,936,888	21,305,132	97,791,415	33,682,783
15,423,789		1,904,992		
$ 25,388,465	$ 29,936,888	$ 23,210,124	$ 97,791,415	$ 33,682,783

ANALYSIS OF RECEIVABLES OUTSTANDING BY DIVISION
AS AT MAY 31, 1967

	Total	Automotive	Capital Equipment
New automobiles	$ 30,440,807	$ 30,440,807	$
Used automobiles	13,076,085	13,076,085	
Mobile homes	5,948,059	5,948,059	
Capital equipment	32,521,751		32,521,751
Farm equipment	14,906,596		
Home improvement	108,588,671		
Commercial vehicles	5,630,582	5,630,582	
Other	3,452,470	3,452,470	
Mortgage loans	682,015		
Conditional sales contracts	37,268,495		
Direct loans	106,332,881		
Direct cash loans (under Consumer Loan Acts)	89,359,358		
Capital loans to dealers	1,038,208	1,038,208	
Total	449,245,978	59,586,211	32,521,751
Wholesale	40,456,573	8,281,433	
Accrued interest	964,341	50,671	
Total per Consolidated Financial Position	$490,666,892	$ 67,918,315	$ 32,521,751
Number of accounts - excluding wholesale	454,594	31,567	2,401
Average balance	$ 988	$ 1,888	$ 13,545

Farm Equipment	Home Improvement	Banking	Canadian Consumer Finance	U.S. Consumer Finance
$	$	$	$	$
14,906,596				
	108,588,671			
			682,015	
		14,620,912	13,744,202	8,903,381
		21,963,861	72,663,823	11,705,197
		4,410,793	55,349,942	29,598,623
14,906,596	108,588,671	40,995,566	142,439,982	50,207,201
31,397,610		770,498	2,299	4,733
		11,218	764,691	137,761
$ 46,304,206	$108,588,671	$ 41,777,282	$143,206,972	$ 50,349,695
3,202	49,671	56,868	221,847	89,038
$ 4,655	$ 2,186	$ 721	$ 642	$ 564

The maturities at May 31, 1967 of retail installment receivables of $490,666,892 are shown below. The terms of these loans require monthly installment payments.

	Amount	Percentage
Past due installments	$ 2,881,246	.6%
Installments due within one year excluding past dues	203,126,812	45.2
Total due within one year	206,008,058	45.8
13 - 24 months	139,252,631	31.0
25 - 36 months	64,836,531	14.4
37 - 48 months	22,123,795	5.0
49 - 60 months	11,026,260	2.5
61 - 72 months	4,240,160	.9
73 and over	1,758,543	.4
	449,245,978	100.0%
Wholesale	40,456,573	
Accrued interest	964,341	
Total receivables	$490,666,892	

The average maturity by months and by division of notes receivable outstanding is as follows:

	May 31 1967	Nov.30 1966
Automotive	21 months	21 months
Capital equipment	17	17
Farm equipment	25	29
Home improvement	43	44
Banking	17	17
Canadian Finance -		
consumer loan	18	18
direct loan	28	29
U.S. Finance -		
consumer loan	18	17
direct loan	21	20

UNEARNED DISCOUNT AND SERVICE CHARGES - $57,694,136

Unearned discount and service charges of $57,694,136 represents the portion of interest and other finance charges included in the original face amount of related contracts receivable which is deemed to be unearned as at May 31, 1967.

The net finance charges on discounted receivables acquired are credited to unearned discount and service charges. A portion of such charges, ranging from nil to 25% is taken into income at the time of purchase of each contract to offset acquisition costs. The remainder of the finance charge is transferred to income over the periods covered by the notes, in diminishing monthly amounts proportionate to the decreasing balances of the receivables (sum-of-digits method). Interest on loans which do not include interest or finance charges in the original face amount is taken into income as earned and interest accrued at the respective balance sheet dates has been included with contracts receivable.

Unearned discount and service charges as related to each division are set out below:

	May 31, 1967		November 30, 1966	
	Amount	Ratio to related receivables	Amount	Ratio to related receivables
	(Thousands of Dollars)			
Automotive	$ 5,434	10.2%	$ 5,691	10.0%
Capital Equipment	3,333	10.1	3,084	10.1
Consumer Finance:				
Canadian -				
Conditional sales contracts	1,415	10.3	1,207	9.8
Large loans	12,644	17.4	10,556	16.8
	14,059	16.3	11,763	15.7
United States -				
Conditional sales contracts	837	9.4	847	9.2
Small loans	3,990	17.2	3,312	17.2
Large loans	1,767	15.1	1,434	15.1
	6,594	15.1	5,593	14.8
	20,653	15.9	17,356	15.2
Banking				
Conditional sales contracts	1,434	10.1	1,342	10.0
Consumer loans	3,566	14.1	3,169	13.9
	5,000	13.0	4,511	12.4
Home Improvement	21,087	19.4	19,230	19.2
Farm Equipment	2,187	14.7	1,569	16.8
TOTAL	$57,694	15.2%	$51,441	14.8%

ALLOWANCE FOR LOSSES - $8,463,063

A summary of the Allowance for Losses for the year ended May 31, 1967 follows:

Balance November 30, 1966	$ 7,574,032
Provision for losses charged to operations	3,496,854
	11,070,886
Losses on receivables less recoveries of $616,061	2,607,823
Balance May 31, 1967	$ 8,463,063

The allowance for losses and their relation to receivables outstanding as well as the net losses to liquidation for 1963 to 1967 are as follows:

Year	Outstanding receivables	Allowance for losses	Ratio to outstanding receivables	Liquidation during year excluding wholesale liquidation	Losses on receivables (including wholesale losses) less recoveries	Ratio of losses (net of recoveries) to liquidation
		(Thousands		of Dollars)		
May 31 1967	* $459,308	$ 8,463	1.84%	$200,112	$ 2,608	1.30%
1966	* 427,731	7,574	1.77	340,896	4,736	1.39
1965	338,608	5,735	1.69	246,464	3,741	1.52
1964 (11 mo.)	227,485	3,574	1.57	169,626	2,515	1.48
1963	163,468	2,608	1.60	135,437	1,395	1.03

Note: The figures shown for periods ended in 1963 and 1964 inclusive are for Avco Delta Corporation Canada Limited.

* The outstanding receivables for 1967 exclude $31,359 and $21,198 in 1966 of wholesale generated through Avco New Idea for which no allowance for losses is required as Avco has a commitment to repurchase uncollectible accounts. Also the Company has a 10% holdback to cover any charge backs.

Following is an analysis of Sales Finance losses to liquidation for the six month period ended May 31, 1967.

	Automotive Division	Capital Equipment Division	Farm Equipment Division	Home Improvement Division	Conditional Sales - Other Divisions	Total
Liquidation	*$27,984,504	12,167,617	4,379,363	21,992,919	25,116,997	91,641,400
Losses less recoveries	$ 438,997	157,249	25,953	747,656	146,457	1,516,312
Loss to liquidation	1.57%	1.29%	.59%	3.40%	.58%	1.65%

* excludes wholesale liquidation.

Accounts are reviewed continually by supervision and management and it is the Company's policy to write off all known losses, including the excess of repossession inventory over market value thereof, as they are ascertained regardless of the state of delinquency. The allowance for losses is determined for wholesale, capital loans and large capital equipment loans on a specific account basis and for all other accounts as a percentage of outstandings having regard to the Company's loss to liquidation experience.

The relation of Consumer Finance losses to average outstandings for 1963 to 1967 are as follows:

	Average Outstanding	Losses less recoveries	Ratio of losses (net of recoveries) to average outstanding
	(Thousands of Dollars)		
Avco Delta Corporation			
1967	$ 167,915	$ 1,092	1.3%
1966	156,051	2,084	1.3
1965	106,264	1,320	1.2
Avco Delta Corporation Canada Limited			
1964 (Eleven months)	71,635	884	1.2
1963	55,292	537	1.1

Following is an analysis of consumer loan losses to average notes receivable outstanding for the six month period ended May 31, 1967.

	Consumer Finance U.S.	Consumer Finance Canadian	Consumer Finance Banking Division	Total
Average notes receivable outstanding	$ 33,418,457	$111,703,005	$ 22,793,885	$167,915,347
Losses less recoveries	263,353	634,077	194,081	1,091,511
Loss to average outstanding	1.58%	1.14%	1.70%	1.30%

The allowance for losses and their relation to retail receivables outstanding by division are detailed below as at May 31, 1967 and November 30, 1966.

Division		Allowance for losses (Thousands of Dollars)	Related receivables* (Thousands of Dollars)	Ratio
Automotive	1967	$ 927	$ 59,637	1.55%
	1966	1,072	62,399	1.72
Capital Equipment	1967	616	32,522	1.89
	1966	534	31,109	1.72
Consumer Finance - Can.	1967	2,792	143,205	1.95
	1966	2,517	131,375	1.92
- U.S.	1967	1,005	50,345	2.00
	1966	895	44,847	2.00
Banking	1967	826	41,007	2.01
	1966	803	39,085	2.05
Home Improvement	1967	2,053	108,588	1.89
	1966	1,620	100,645	1.61
Farm Equipment	1967	244	14,906	1.64
	1966	133	9,321	1.43

* Excludes wholesale receivables of $40,457 in 1967 and $30,150 in 1966.

The following is an analysis of delinquent accounts at May 31, 1967:

	Number of Accounts	Amount	Percentage of relevant outstanding May 31 1967	Percentage of relevant outstanding Nov.30 1966
Direct cash loans (under Consumer Loan Acts):				
90 day accounts - no collections received for 90 days or more	2,399	$1,008,242	1.13%	1.07%
60-89 day accounts - no collections received for 60 to 89 days	1,716	656,215	.73	.75
Interest only accounts	860	449,167	.51	.45
	4,975	$2,113,624	2.37%	2.27%
Retail sales contracts:				
60 day accounts - one or more installments more than 60 days past due		$7,031,807	1.96%	1.74%
Capital loans - one or more installments more than 60 days past due		$ 36,982	3.56%	6.98%
Total		$9,182,413	2.04%	1.86%

OTHER CURRENT ASSETS - $3,380,753

Other current assets are summarized as follows:

Repossessions and foreclosures - at approximate market value	$ 993,266
Taxes recoverable (see below)	755,783
Prepaid interest	542,322
Experience dividends receivable from health and accident insurance companies	259,031
Due from affiliates	156,434
Prepaid insurance	50,580
Miscellaneous	623,337
	$ 3,380,753

Exchange losses previously charged to Canadian subsidiaries' retained earnings have been determined to be deductible in 1965 and subsequent years. The tax recovery realized to November 30, 1966 amounted to $1,508,030 and substantially all of the balance of $755,783 is expected to be realized in 1967.

NET ASSETS OF INSURANCE SUBSIDIARIES - $6,989,232

Net assets of subsidiary insurance companies at May 31, 1967 and November 30, 1966, consisted of:

	May 31 1967	November 30 1966
Assets:		
Cash	$ 1,078,619	$ 914,930
Amounts due from insurance agents and re-insurance companies	2,088,692	1,901,520
Investments, at cost plus accrued interest - approximate market	13,056,124	12,749,046
Property and equipment at cost less accumulated depreciation and amortization of $344,740 in 1967 and $311,693 in 1966	553,576	532,444
Prepaid expenses	2,033	1,765
Total assets	16,779,044	16,099,705
Liabilities:		
Provision for outstanding insurance claims	4,683,664	3,849,584
Unearned premiums	4,324,966	3,812,113
Accounts payable (including taxes)	781,182	1,599,759
Total liabilities	9,789,812	9,261,456
Net assets	$ 6,989,232	$ 6,838,249

PROPERTY AND EQUIPMENT AND DEFERRED EXPENSES AT COST LESS ACCUMULATED DEPRECIATION AND AMORTIZATION - $3,754,474

Details of property and equipment and deferred expenses are set out below:

Land, buildings, furniture, fixtures and leasehold improvements at cost	$4,034,852		
Accumulated depreciation and amortization	(1,491,864)	$2,542,988	
Deferred expenses:			
Unamortized financing expenses	710,796		
Deferred branch opening expenses	500,690	1,211,486	
			$3,754,474

To the amount of financing expenses ($193,384 net of tax) previously deferred by Avco Delta Canada there has been added at May 31, 1967, $517,412 totalling $710,796, ($784,236 at November 30, 1966) representing financing expenses less amortization, incurred by Avco Delta Corporation in connection with notes issued during 1965, 1966 and 1967. These expenses are being amortized and claimed for income tax purposes over the lives of the respective issues.

The Canadian Loan Division follows the practice of deferring a portion of the operating expenses incurred by each new branch during its development period which is considered to be the first twelve months of operation. The amount deferred for each office is limited to $10,000 and is charged against operations during the thirty-six months following completion of the development period. As it is the Company's policy to claim such expenses in full as a deduction from taxable income in the year in which they are incurred, the amount deferred in the accompanying consolidated financial position has been decreased by the resulting reduction in income taxes leaving net deferred development costs of $500,690 ($484,238 at November 30, 1966).

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES - $6,991,369

These consist of:

Accrued interest payable of:		
Senior notes payable	$2,084,100	
Senior subordinated notes payable	457,792	
Junior subordinated notes payable	264,454	
Savings deposits	339,550	
		$ 3,145,896
Deferred wholesale billing		1,369,922
Unearned credit life premium reserve of small loan subsidiary		510,520
Non resident tax payable		346,368
Accrued salaries and bonuses		415,701
Employees tax deductions		158,883
Accrued audit and legal		117,706
Other payables		926,373
		$ 6,991,369

U.S. FEDERAL AND CANADIAN INCOME TAXES - $2,204,504

These consist entirely of federal and provincial corporation income taxes.

Taxes on income as filed in respect of Avco Delta Corporation and its subsidiaries have been paid to November 30, 1966. In addition the Companies have either paid or set aside adequate reserves for the payment of all taxes in respect of the six months ended May 31, 1967.

Details of the years for which income taxes have been examined are as follows:

Avco Delta Corporation	Not examined
Avco Delta Corporation Canada Limited and its Canadian subsidiaries	
- Government of Canada	1965
- Provincial	1964
Avco Delta Corporation of Massachusetts and its affiliated companies	
- Government of the United States of America	1964
Avco Finance Company and its subsidiaries	
- Government of the United States of America	1961
Avco New Idea Credit Corporation	
- Government of the United States of America	Not examined
Colorado Industrial Bank and its affiliated companies including Citizens Finance Company and Avco Thrift Company	
- Government of the United States of America	1961

SAVINGS DEPOSITS - $13,605,722

This represents savings deposits and certificates ($12,735,721), and debentures ($870,001), of Industrial Bank and Thrift subsidiaries. They yield the depositor interest varying in rate from 4% to 6%. The depositor has no checking privileges but can make withdrawals upon legally required notice.

DEALERS' RESERVES AND HOLDBACKS - $7,945,709

On the purchase of installment contracts from dealers and others, the Company withholds a portion of the purchase price for application against possible losses on contracts purchased and also to offset unearned discount and service charges rebated to customers on the prepayment of contracts. To a limited extent amounts withheld on contracts purchased represent an additional allowance for losses on receivables.

The Company purchases wholesale receivables acquired by Avco New Idea in the sale of farm equipment for which no allowance for losses is required as Avco has a commitment to purchase uncollectible accounts. While the Company does not set up an allowance for doubtful accounts with respect to these receivables, 10% of the gross amount is held back to cover any charge backs. This holdback amounted to $3,135,873 at May 31, 1967 and $2,119,837 at November 30, 1966.

NOTES AND DEBENTURES PAYABLE

BANKS	$ 76,085,000	
COMMERCIAL PAPER	97,734,500	
LONG TERM DEBT	197,939,689	$371,759,189

Notes and debentures payable at May 31, 1967 are summarized as follows:

	Total	Due within one year
Senior notes:		
Short term series -		
Banks (Prime Rate):		
Payable in U.S. funds	$ 75,160,000	
Payable in Canadian funds	925,000	
	76,085,000	$ 76,085,000
Commercial paper:		
Payable in U.S. funds	94,034,500	
Payable in Canadian funds	3,700,000	
	97,734,500	97,734,500
Long term series - 5% to 6 3/4% Maturing annually to October 1, 1981	148,914,500	3,910,250
Senior subordinated notes - 5¼% to 6½% Maturing annually to September 1, 1981	31,636,563	1,587,188
Junior subordinated notes - 5 5/8% to 6 3/4% Maturing annually to November 15, 1980	17,252,188	944,062
Sinking fund debenture - 5½% due March 1, 1968	136,438	136,438
	197,939,689	6,577,938
	$371,759,189	$180,397,438

At May 31, 1967 the Company had firm commitments from lenders for the closing of $12,300,000 of long term senior debt previously placed as set out below:

1967	$ 5,600,000
1968	6,700,000
	$12,300,000

Particulars of long term notes payable are as follows:

SENIOR NOTES PAYABLE - LONG TERM

Rate	Due	Annual Payment	Amount
Payable in U.S. funds:			
5%	1979	$ 100,000 - 1970 to 1978	$ 1,000,000
5 1/8%	1980	1,395,000 - 1968 to 1979	23,250,000
5 3/8%	1980	1,999,500 - 1968 to 1979	33,325,000
5 1/2%	1975	1,250,000 - 1968 to 1974	10,000,000
5 1/2%	1976	175,000 - 1968 to 1975	1,575,000
5 3/4%	1969	205,000 - 1967 to 1968	615,000
5 3/4%	1981	1,875,000 - 1969 to 1980	25,000,000
6%	1973	800,000 - 1967 to 1972	5,600,000
6%	1974	750,000 - 1968 to 1973	5,250,000
6 3/8%	1971	300,000 - 1967 to 1970	1,400,000
6 1/2%	1970	50,000 - 1968 to 1969	150,000
6 1/2%	1975	334,000 - 1968 to 1974	2,662,000
6 1/2%	1981	2,827,500 - 1969 to 1980	37,700,000
			147,527,000
Payable in Canadian funds:			
6 1/8%	1978	46,250 - 1969 to 1977	462,500
6 1/4%	1977	27,750 - 1968 to 1976	277,500
6 3/8%	1978	46,250 - 1969 to 1977	462,500
6 3/4%	1977	18,500 - 1968 to 1976	185,000
			1,387,500
TOTAL SENIOR NOTES PAYABLE			$148,914,500

SENIOR SUBORDINATED NOTES PAYABLE

Rate	Due	Annual Payment	Amount
Payable in U.S. funds:			
5 1/4%	1968	$ 35,000 - 1967	$ 185,000
5 1/4%	1979	50,000 - 1970 to 1978	500,000
5 3/8%	1980	390,000 - 1968 to 1979	6,500,000
5 1/2%	1976	460,000 - 1968 to 1975	4,140,000
5 1/2%	1978	100,000 - 1969 to 1977	1,000,000
5 5/8%	1980	333,000 - 1968 to 1979	5,550,000
5 3/4%	1970	60,000 - 1968 to 1969	180,000
6%	1975	225,000 - 1968 to 1974	1,800,000
6%	1976	100,000 - 1968 to 1975	900,000
6 1/4%	1977	170,000 - 1968 to 1976	1,700,000
6 3/8%	1981	364,000 - 1968 to 1980	5,200,000
6 1/2%	1974	250,000 - 1967 to 1973	2,000,000
6 1/2%	1976	160,000 - 1967 to 1975	1,600,000
			31,255,000
Payable in Canadian funds:			
6%	1969	127,188 - 1967 to 1968	381,563
TOTAL SENIOR SUBORDINATED NOTES PAYABLE			$ 31,636,563

JUNIOR SUBORDINATED NOTES PAYABLE

Rate	Due	Annual Payment	Amount
Payable in U.S. funds:			
5 5/8%	1980	$ 300,000 - 1968 to 1979	$ 5,000,000
5 7/8%	1978	100,000 - 1969 to 1977	1,000,000
6%	1976	280,000 - 1968 to 1975	2,520,000
6%	1980	270,000 - 1968 to 1979	4,500,000
6 1/4%	1970	300,000 - 1968 to 1969	750,000
6 3/8%	1975	150,000 - 1968 to 1974	1,200,000
6 1/2%	1969	-	1,200,000
6 1/2%	1970	55,000 - 1967 to 1969	220,000
6 3/4%	1977	55,000 - 1968 to 1976	550,000
			16,940,000
Payable in Canadian funds:			
6 1/2%	1969	104,063 - 1967 to 1968	312,188
TOTAL JUNIOR SUBORDINATED NOTES PAYABLE			$ 17,252,188

Following is a list of lenders:

LENDER	SENIOR	SENIOR SUBORDINATED	JUNIOR SUBORDINATED	TOTAL
The Prudential Insurance Company of America	$ 16,000,000	$ 2,000,000	$ 2,500,000	$ 20,500,000
John Hancock Mutual Life Insurance Company	20,564,800	2,500,000	2,000,000	25,064,800
Metropolitan Insurance Company	23,610,000	-	-	23,610,000
New York Life Insurance Company	10,000,000	4,400,000	2,000,000	16,400,000
Investors Diversified Services	11,500,000	-	-	11,500,000
Connecticut General Life Insurance Company	3,600,000	2,000,000	1,000,000	6,600,000
Aetna Life Insurance Company	3,600,000	2,900,000	1,000,000	7,500,000
The Northwestern Mutual Life Insurance Company	6,100,000	3,360,000	-	9,460,000
New England Mutual Life Insurance Company	4,100,000	2,900,000	-	7,000,000
The Lincoln National Life Insurance Company	3,632,400	1,185,000	925,000	5,742,400
Massachusetts Mutual Life Insurance Company	2,000,000	3,440,000	-	5,440,000
First National Bank of Chicago	5,500,000	-	-	5,500,000
The Penn Mutual Life Insurance Company	4,000,000	-	-	4,000,000
Equitable Life (N.Y.)	4,850,000	-	-	4,850,000
The Mutual Benefit Life Insurance Company	2,000,000	1,300,000	900,000	4,200,000

LENDER	SENIOR	SENIOR SUBORDINATED	JUNIOR SUBORDINATED	TOTAL
Old Colony Trust Company	$ 4,015,000	$ -	$ -	$ 4,015,000
Continental Assurance Company	3,032,400	-	-	3,032,400
The Connecticut Mutual Life Insurance Company	800,000	900,000	900,000	2,600,000
Phoenix Mutual Life Insurance Company	2,082,400	500,000	-	2,582,400
The Franklin Life Insurance Company	2,000,000	-	-	2,000,000
State Mutual Life Assurance Company of America	-	681,563	1,112,188	1,793,751
Avco Corporation	1,000,000	400,000	-	1,400,000
Trustees of the Eaton Retirement Annuity Plan	1,387,500	-	-	1,387,500 *
The George Putnam Fund of Boston	-	-	1,220,000	1,220,000
Bankers Life Insurance Company of Nebraska	-	1,000,000	-	1,000,000
Pacific Mutual Life Insurance Company	1,000,000	-	-	1,000,000
National Life Insurance Company	1,000,000	-	-	1,000,000
Sun Life Assurance Company of Canada	1,000,000	-	-	1,000,000
Life & Casualty Insurance Company of Tennessee	500,000	-	-	500,000
Minnesota Mutual Life Insurance Company	-	200,000	720,000	920,000
Bankers Life Company Des Moines	900,000	-	-	900,000
The Northwestern National Life Insurance Company	-	600,000	200,000	800,000
Incorporated Income Fund	750,000	-	-	750,000
U.S. Steel Pension Fund (Schmidt & Co.)	-	-	750,000	750,000
Peoples Life Insurance Company	750,000	-	-	750,000
The Fidelity Mutual Life	700,000	-	-	700,000
Berkshire Life Insurance Company	150,000	-	-	150,000
Indianapolis Life Insurance Company	650,000	-	-	650,000
Yale University (J.C. Orr & Co.)	-	400,000	250,000	650,000
Guarantee Mutual Life Company	500,000	90,000	-	590,000
American National Insurance Company	450,000	90,000	-	540,000
United Insurance Company of America	500,000	-	-	500,000

* Debt of Avco Delta Corp., Canada Limited (Canadian $ Equivalent $1,500,000)

LENDER	SENIOR	SENIOR SUBORDINATED	JUNIOR SUBORDINATED	TOTAL
Princeton University (Heil & Co.)	$ -	$ -	$ 500,000	$ 500,000
The Kresge Foundation	500,000	-	-	500,000
Lutheran Mutual Life Insurance Company	500,000	-	-	500,000
Maccabees Mutual Life Insurance Company	500,000	-	-	500,000
United Benefit Life Insurance Company	450,000	-	-	450,000
Equitable Life Insurance Company (Washington D.C.)	400,000	-	-	400,000
Farm Bureau Life Insurance Co.	250,000	-	80,000	330,000
Mutual Trust Life Insurance Company	-	-	320,000	320,000
Scott Paper Pension Fund (Genoy & Co.)	-	-	300,000	300,000
Hardware Dealers Mutual Fire Insurance Company	250,000	-	-	250,000
Western Life Insurance Co.	250,000	-	-	250,000
Sentry Life Insurance Co.	250,000	-	-	250,000
Brandeis University	250,000	-	-	250,000
Hardware Mutual Casualty Co.	250,000	-	-	250,000
Norfolk & Western Railway Supplemental Pension Fund (Williams & Co.)	-	240,000	-	240,000
Fidelity Life Association	-	200,000	-	200,000
Lumberman's Mutual Casualty Co.	-	200,000	-	200,000
The Guardian Life Insurance Company of America	150,000	-	-	150,000
Swarthmore College (Steere & Co.)	-	-	150,000	150,000
J. Walter Thompson Profit Sharing Trust (Orrin Henry & Co.)	-	-	150,000	150,000
American Mutual Life Insurance Company	150,000	-	-	150,000
National Travellers Life Co.	150,000	-	-	150,000
Rural Security Life Insurance Company	-	150,000	-	150,000
New World Foundation	-	-	100,000	100,000
Protective National Insurance Company of Omaha	100,000	-	-	100,000
Trustees of Clark University	-	-	100,000	100,000
St. Paul Fire & Marine (Retirement Fund)	100,000	-	-	100,000
Federal Life Insurance Co.	100,000	-	-	100,000
Home Life Insurance Company	90,000	-	-	90,000
American States Life Insurance Company	-	-	75,000	75,000
	$148,914,500	$ 31,636,563	$ 17,252,188	$197,803,251

The maturities on long term notes at May 31, 1967 are summarized as follows:

Year Ending November 30	Total	Senior Notes	Senior Subordinated Notes	Junior Subordinated Notes
1967	2,036,151	1,305,000	572,163	158,988
1968	11,744,488	7,441,188	2,789,200	1,514,100
1969	17,652,300	12,099,000	2,739,200	2,814,100
1970	16,016,000	11,994,000	2,662,000	1,360,000
1971	15,601,000	11,844,000	2,602,000	1,155,000
1972	15,401,000	11,644,000	2,602,000	1,155,000
1973	15,401,000	11,644,000	2,602,000	1,155,000
1974	14,601,000	10,844,000	2,602,000	1,155,000
1975	13,591,000	10,084,000	2,352,000	1,155,000
1976	11,642,000	8,510,000	2,127,000	1,005,000
1977	10,467,000	8,335,000	1,407,000	725,000
1978	10,195,750	8,288,750	1,237,000	670,000
1979	9,903,250	8,196,250	1,137,000	570,000
1980	26,940,750	20,542,750	3,738,000	2,660,000
1981	6,747,000	6,279,000	468,000	-
LIQUIDITY	197,939,689	149,050,938	31,636,563	17,252,188

The estimated liquidation periods of the net current debt and the non current portion of the senior long term debt, are set out below. Cash, marketable securities and wholesale receivables have been assumed to be immediately available to liquidate the debt, and the installment receivables available as they mature (as indicated on page 13).

	May 31, 1967			November 30, 1966
Total current liabilities		$211,144,742		
Deduct:				
Cash	$20,741,281			
Marketable securities	2,194,285			
Wholesale receivables	40,456,573			
		63,392,139		
Net current debt		147,752,603		
Estimated liquidation period			8.1 mo.	10.2 mo.
Non current portion of senior long term debt		145,004,250		
Total		$292,756,853		
Estimated liquidation period			18.9 mo.	18.8 mo.

Senior notes, senior subordinated notes and junior subordinated notes issued under the Loan Agreement contain certain specific covenants by the Company which are summarized below:

(1) That it will not permit adjusted consolidated net worth (as defined in the agreement) to become less than $20,000,000.

(2) That senior debt of the Company cannot in the aggregate principal amount exceed 375% of the sum of -
  (i) adjusted consolidated net worth of the Company and its domestic subsidiaries and
  (ii) senior subordinated debt of the Company and
  (iii) junior subordinated debt of the Company, (See Item A below).

(3) That senior subordinated debt of the Company cannot in the aggregate principal amount exceed 50% of the sum of -
  (i) adjusted consolidated net worth of the Company and
  (ii) junior subordinated debt of the Company (See Item C below).

(4) That junior subordinated debt of the Company cannot in the aggregate principal amount exceed 50% of the adjusted consolidated net worth of the Company. (See Item D below).

(5) That senior debt of the Company cannot in the aggregate principal amount become less than 10% of the borrowings from commercial banks and trust companies under established lines of credit. (See Item B below).

At May 31, 1967 the adjusted consolidated net worth (as defined) was $54,752,281 computed as follows:

Capital stock	$ 33,850,000	
Additional paid-in capital	63,908,664	
Retained earnings	11,945,881	
	109,704,545	
Minority Interest -		
Avco Delta Corporation Canada Limited - Preference shares	4,744,140	$114,448,685
Deduct:		
Property and equipment (including $553,575 owned by insurance subsidiaries) and deferred expenses	4,308,049	
Excess of cost of investments in subsidiaries over acquired equity in net assets	55,388,355	59,696,404
		$ 54,752,281

Details of borrowing ratios at May 31, 1967 are set out below:

ITEM A - Senior Debt

Senior debt:		
Senior notes payable	$322,734,000	
Savings deposits (including savings debentures of $870,001)	13,605,722	
Sinking fund debentures	136,438	$336,476,160
Adjusted consolidated net worth	54,752,281	
Senior subordinated debt	31,636,563	
Junior subordinated debt	17,252,188	$103,641,032
Permitted percentage		375%
Actual percentage		324.7%

ITEM B - Source of Senior Debt

Senior debt (as shown in Item A)		$336,476,160
Senior debt due to commercial banks and trust companies		$ 76,085,000
Required minimum percentage		10%
Actual percentage		22.6%

ITEM C - Senior Subordinated Debt

Senior subordinated notes payable		$ 31,636,563
Adjusted consolidated net worth	$ 54,752,281	
Junior subordinated debt	17,252,188	$ 72,004,469
Permitted percentage		50%
Actual percentage		43.9%

ITEM D - Junior Subordinated Debt

Junior subordinated notes payable	$17,252,188
Adjusted consolidated net worth	$54,752,281
Permitted percentage	50%
Actual percentage	31.5%

Compliance with other specific covenants of the Loan Agreement require that

(I) the aggregate amount of debt owed by Canadian consolidated subsidiaries will not exceed after May 1, 1967, 15% of the total senior debt of the Company and debt of domestic consolidated subsidiaries. As at May 31, 1967 Canadian debt amounted to $9,398,938 or only 2.8% of total senior debt.

(II) the aggregate amount of debt other than savings deposits owed by domestic consolidated subsidiaries engaged in the banking business (other than Canadian consolidated subsidiaries) will not exceed 10% of adjusted consolidated net worth. As at May 31, 1967, there was $870,001 of savings debentures which was 1.6% of adjusted consolidated net worth.

(III) the aggregate amount of debt to depositors for savings certificates and deposits of domestic consolidated subsidiaries (other than Canadian consolidated subsidiaries) engaged in the banking business will not exceed 15% of receivables of the Company. As at May 31, 1967 debt to depositors amounted to $12,735,721 or only 2.6% of total receivables.

(IV) the adjusted consolidated net worth be reduced by the amount by which accounts receivable and other obligations arising from commercial financing exceeds 25% of receivables. At May 31, 1967 there is no excess as these receivables amount to only 6.9% of receivables.

(V) the aggregate amount of receivables (after deductions of applicable unearned income) representing obligations incurred for the alteration, repair, improvement or modernization of urban, suburban or rural real property or buildings thereon shall not exceed 30% of the amount (after deduction of applicable unearned income) of all receivables outstanding. At May 31, 1967 these receivables amounted to only 20.2% of net receivables, as defined above.

Also set out below is a certificate submitted by the Company in compliance with the Loan Agreement - Item 6 - Reports, etc., Sections (e) and (f).

To the best of the knowledge of the undersigned, being a financial officer of Avco Delta Corporation:

1. The voting stock of the Company as of May 31, 1967 was 100% beneficially owned by Avco Corporation.

2. There exists and has existed no condition which constitutes, or if not remedied might constitute, an Event of Default under the Notes.

President.

CAPITAL STOCK - $33,850,000

Details of the changes in capital stock are set out in note 1 to the Consolidated Financial Statements.

While at May 31, 1967 the company owned 2,272,780 shares of the total of 2,273,069½ outstanding common shares of Avco Delta Corporation Canada Limited, this subsidiary had reserved at that date for issue to third parties additional common shares as follows:

(a) for issue under conversion privileges attached to second preference shares - Series B held by third parties, based on conversion privilege available on or before December 16, 1968 of 5 common shares for each $100 (Can) par value preference share	14,510 shares
(b) for issue under options held by employees expiring December 31, 1969 at $17.48 per share.	7,200 shares
	21,710 shares

ADDITIONAL PAID-IN CAPITAL - $63,908,664

Details of the changes in additional paid-in capital are set out in note 1 to the Consolidated Financial Statements.

RETAINED EARNINGS - $11,945,881

Details of the changes in retained earnings during the year are set out in the Consolidated Financial Statements.

The Company has covenanted in Loan Agreements securing outstanding notes payable not to make any stock payments (which include the payment of dividends on its capital stock, the purchase or redemption of any such stock and any distribution in respect of such stock) other than any such payments which may be payable solely in stock of the Company unless immediately thereafter and after giving effect to the stock payment in question:

(a) the aggregate amount of such stock payments made during the period subsequent to November 30, 1964 will not exceed the sum of the total consolidated net earnings of the Company and its subsidiaries during such period after deduction of all dividends on present preferred stock of Avco Delta Corporation Canada Limited provided, however, that at the time of and after giving effect to each such stock payment the Company must be in compliance with the debt ratios prescribed in the Loan Agreement without including in Adjusted Consolidated Net Worth any minority interest represented by Present Preferred Stock of Avco Delta Corporation Canada Limited.

(b) the adjusted consolidated net worth of the Company and its subsidiaries (as defined in the loan agreements) will not be reduced to less than $20,000,000.

As at May 31, 1967 approximately $4,000,000 of Avco Delta's retained earnings was not restricted with respect to stock payments in accordance with the proviso to paragraph (a) above and, at that date, the Company would still be in compliance with the prescribed debt ratios if the minority interests represented by present preferred stock of Avco Delta Corporation Canada Limited were excluded from Adjusted Consolidated Net Worth.

The Loan Agreements permit the Company to pay regular dividends on preferred stock which may be outstanding and to purchase, redeem or retire preferred stock to the extent required by applicable mandatory sinking funds. Any such dividend, purchase, redemption or retirement must be deducted in the computation of any amount permitted to be paid or distributed in respect of other stock payments.

SECTION 3

ROBERT MORRIS QUESTIONNAIRE

SALES FINANCE COMPANY QUESTIONNAIRE

NOTE: In submitting this questionnaire with financial statements, please ascertain that identical terminology is used and that all figures in each are in agreement. Figures in schedules should be stated to the nearest dollar. If the information requested is already included in audit report, it need not be duplicated herein.

Name and Address of Company Avco Delta Corporation

750 Third Avenue, New York, New York 10017.

Submitted as of July 31, 1967 covering the period from December 1, 1966 to May 31, 1967

SECTION I—GENERAL QUESTIONNAIRE

1. Does this report include operations of subsidiary or affiliated companies? Yes. If so, please list below the names of any subsidiary or affiliate which has been financed other than by advances from the reporting company, the outstanding capital and percentage of ownership of each and the amount and description of outside financing.

2. Is any financing done for concerns in which officers, stockholders, directors of company or their families have a direct or beneficial interest? If so, please give details. 1. Financing of five Holiday Inns at five centres in Ontario. $1,420,000 advanced for financing of furniture and fixtures at a rate of 11% per annum repayable in 96 installments.
2. Financing in the ordinary course of business and at competitive market rates of three affiliated automobile dealerships with aggregate secured loans of $457,172 and aggregate secured retail paper of $1,766,460 as at May 31, 1967.

SCHEDULE A

VOLUME OF BUSINESS FOR THE PERIOD AND OUTSTANDINGS AT END OF PERIOD:
(Use blank lines to detail classifications not specified below.)

DISCOUNTS (Note A)	VOLUME			OUTSTANDINGS END OF PERIOD (Except Wholesale)
	RETAIL	WHOLESALE	TOTAL	
Automobile—New	$ 12,233,828	$ 25,711,220	$ 37,945,048	$ 30,440,807
Automobile-Used (From Dealers)	6,158,137	1,180,510	7,338,647	13,076,085
Automobile-Used (Direct Loans)				
Farm equipment	9,964,676	15,423,789	25,388,465	14,906,596
House trailers	2,174,285	1,409,246	3,583,531	5,948,059
Machinery & equipment	13,579,881		13,579,881	32,521,751
Modernization—Own plan	29,936,888		29,936,888	108,588,671
Shell Housing				
Bulk purchases (Describe)	1,587,813		1,587,813	
Other (Describe)	4,555,988	2,100,502	6,656,490	9,083,052
Direct Loans, etc.	85,867,458		85,867,458	144,283,391
Totals	$ 166,058,954	$ 45,825,267	$ 211,884,221	$ 358,848,412
DIRECT CASH LOANS—Under Small Loan Acts or Comparable Laws (Note B)			$ 65,324,059	$ 89,359,358
COMMERCIAL LENDING AND MISCELLANEOUS FINANCING (Note C)				
Loans—Accounts receivable security			$	$
Loans—Inventory security				
Machinery and equipment loans				
Capital loans to automobile dealers			133,744	1,038,208
Rediscounts—Auto				
Rediscounts—Other				
Total Commercial Loans and Miscellaneous Financing			$ 133,744	$ 1,038,208
TOTAL VOLUME—ALL CLASSIFICATIONS			$ 277,342,024	
TOTAL OUTSTANDINGS ALL CLASSIFICATION, EXCEPT WHOLESALE				$ 449,245,978

NOTE A: Please complete Discount Section II. NOTE B: Please complete Direct Cash Loan Section III.

NOTE C: If Commercial or Miscellaneous Financing operations are engaged in please complete the separate Commercial Financing Questionnaire.

Robert Morris Associates. Form No. C 123 Rev. '62
Carried in Stock by Cadwallader & Johnson, Inc., 225 W. Huron St., Chicago 10, Ill.

SCHEDULE B

RESERVE FOR LOSSES RECONCILIATION (excluding dealers' participating reserves):

BALANCE BEGINNING OF PERIOD	$ 3,358,698
ADDITIONS	
Appropriations from surplus	$
Appropriations from gross finance charges	
Appropriations from income	1,851,277
Recoveries (Reconcile with Schedule C)	165,005
Other credits (Detail)	
Total additions	$ 2,016,282
DEDUCTIONS	
Losses charged (Reconcile with Schedule C)	$ 1,534,860
Transferred to other reserves (Specify)	
Other charges (Detail)	
Total deductions	$ 1,534,860
BALANCE END OF PERIOD	$ 3,840,120

SCHEDULE C

LOSS EXPERIENCE FOR PERIOD:

	WHOLESALE AUTOMOBILE *	RETAIL AUTOMOBILE	OTHER (Exclusive of Direct Cash Loans)
Outstdg. beginning of period	$ 7,679,779	$ 52,874,999	$ 150,515,206
Volume for period	28,300,976	20,566,250	58,171,177
Notes Purch. (Bulk—Face Amt.)			
Total (1)	$ 35,980,755	$ 73,441,249	$ 208,686,383
Less: Outstanding end of period	$ 8,288,465	$ 49,464,951	$ 166,138,278
Notes Sold (Bulk—Face Amt.)			
Notes Charged Off	-	502,446	1,032,414
Total (2)	$ 8,288,465	$ 49,967,397	$ 167,170,692
Liquidation (1) minus (2)	$ 27,692,290	$ 23,473,852	$ 41,515,691
Notes Chged. Off (detail below)	$ 148,925	$ 353,521	$ 1,032,414
Less—Recoveries		92,002	73,003
Net Losses	$ 148,925	$ 261,519	$ 959,411
% Net Losses to Liquidation	.54 %	1.11 %	2.31 %
% Net Losses to Mo. Av. Outstdgs. (On an Annual Basis)	3.73 %	1.02 %	1.21 %

ANALYSIS OF NOTES CHARGED OFF:

	WHOLESALE AUTOMOBILE	RETAIL AUTOMOBILE	OTHER (Exclusive of Direct Cash Loans)
Repossession losses	$ 148,925	$ 353,521	$ 1,032,414
Other (detail)	$	$	$
	$ 148,925	$ 353,521	$ 1,032,414

DIRECT CASH LOANS - See Direct Cash Loans Questionnaire

Loans Charged Off (A)	$ -
Less—Recoveries	-
Net Losses	$ -
	-
Average Monthly Outstanding (as determined from Sched. N.) (B)	$
% Net Losses to Average Outstandings (on an annual basis)	- %

(A) Are precomputed interest loans charged off net of unearned charges? Yes____ No____.
(B) If answer to A is yes, deduct average unearned charges as determined from Schedule N., Col. 3.

* Wholesale automobile contains a small amount of mobile home paper.

SCHEDULE D

BORROWINGS:

NOTE: Please attach schedule of latest confirmed lines of credit from banks and names of brokers handling sale of open market paper.

	SECURED OR UNSECURED	MAXIMUM* AMOUNT	MINIMUM* AMOUNT	OWING AT STATEMENT DATE
** Bank loans under lines of credit	Unsecured	$ 100,225,000	$ 76,085,000	$ 76,085,000
** Open market borrowings	Unsecured	$ 100,806,000	$ 86,482,000	$ 97,734,500
** Other current loans		$	$	$
Long term debt—Not subordinated	Unsecured	$ 149,050,000	$ 109,000,000	$ 149,050,000
Long term debt—Subordinated	Unsecured	$ 50,028,000	$ 47,514,000	$ 48,889,000
Paper sold with recourse		$	$	$
Paper sold without recourse		$	$	$

* As determined by month-end balances.

** Maximum total short term borrowings at any month end during the period $ 189,205,000 Date February 28, 1967

SCHEDULE E

MONTHLY MATURITIES OF INSTALMENT RECEIVABLES (INCLUDING DIRECT CASH LOANS) OUTSTANDING AT STATEMENT DATE:

MONTH	DISCOUNTS	DIRECT CASH LOANS PRINCIPAL	DIRECT CASH LOANS INTEREST	TOTAL
Past Due	$ 1,341,570	$ 1,539,676	$	$ 2,881,246
1st	16,343,351	5,282,826		21,626,177
2nd	14,396,221	4,950,222		19,346,443
3rd	13,835,466	4,736,165		18,571,631
4th	13,309,170	4,561,215		17,870,385
5th	12,908,300	4,402,804		17,311,104
6th	12,569,774	4,235,064		16,804,838
7th	12,217,916	4,108,389		16,326,305
8th	11,888,061	3,971,346		15,859,407
9th	11,591,079	3,849,637		15,440,716
10th	11,340,609	3,706,097		15,046,706
11th	11,103,510	3,567,467		14,670,977
12th	10,815,867	3,436,256		14,252,123
Over 12 months'	206,225,726	37,012,194		243,237,920
Totals	$ 359,886,620	$ 89,359,358	$	$ 449,245,978

NOTE: Totals in first two columns of above schedule should agree with respective totals in balance sheet.
If non-installment receivables are included in the above schedule, state amount. $ Not applicable.

Analysis of over 12 months			
13-24 months	109,122,382	30,130,249	139,252,631
25-36 months	58,160,798	6,675,733	64,836,531
37-48 months	22,016,217	107,578	22,123,795
49-60 months	10,981,209	45,051	11,026,260
61-72 months	4,217,921	22,239	4,240,160
73 and over	1,727,199	31,344	1,758,543
Total	206,225,726	37,012,194	243,237,920

Robert Morris Associates, Form No. C 123 Rev. '62
Carried in Stock by Cadwallader & Johnson, Inc., 225 W. Huron St., Chicago 10, Ill.

AVCO DELTA CORPORATION

AUTHORIZED BANK LINES
AS AT
MAY 31, 1967

U.S. BANKS	LINE
Morgan Guaranty Trust	15,000,000
Chase Manhattan	12,000,000
Mellon National Bank & Trust	12,000,000
Bankers Trust Company	12,000,000
Manufacturers Hanover Trust	12,000,000
First National City - New York	8,500,000
Chemical Bank New York Trust	8,500,000
First National - Chicago	7,000,000
Irving Trust Company	6,000,000
National Bank of Detroit	6,000,000
First National - Boston	5,000,000
Cleveland Trust	5,000,000
Marine Trust Co. of Western New York	4,000,000
Continental Illinois - Chicago	4,000,000
Detroit Bank and Trust	3,000,000
Bank of America	3,000,000
American Express Company, Inc.	3,000,000
Crocker-Citizens National Bank - San Francisco	2,000,000
First American National - Nashville	2,000,000
Lincoln Rochester	2,000,000
State Street Bank & Trust	2,000,000
Schroder Trust Company	2,000,000
French American Banking Corp.	2,000,000
Central National Bank of Cleveland	2,000,000
First National - Denver	1,500,000
Pittsburgh National	1,500,000
United States Trust Company	1,500,000
Manufacturers National - Detroit	1,500,000
National Commercial - Albany	1,500,000
Connecticut National Bank - Bridgeport	1,500,000
First National - St. Paul	1,000,000
Union Commerce Bank - Cleveland	1,000,000
Worcester County National	1,000,000
American National - Denver	1,000,000
The Central Trust Company - Cincinnati	1,000,000
City Trust Company - Bridgeport	1,000,000
Colorado National - Denver	1,000,000
Manufacturers and Traders - Buffalo	1,000,000
Philadelphia National	1,000,000
First National - Cincinnati	1,000,000
Fifth Third Union Trust - Cincinnati	1,000,000
Southern Arizona Bank and Trust	1,000,000
LaSalle National - Chicago	1,000,000
Seattle First National	1,000,000
Guaranty Bank and Trust - Worcester	1,000,000
First National Bank in Dallas	1,000,000
State National Bank of Connecticut	1,000,000
First Pennsylvania Banking and Trust	1,000,000
Third National Bank - Nashville	1,000,000
Frost National - San Antonio	1,000,000

U.S. BANKS

	LINE
First National Bank of South Carolina	1,000,000
Society National Bank - Cleveland	1,000,000
National City Bank of Cleveland	1,000,000
First National Bank & Trust Company, Oklahoma City	1,000,000
Connecticut Bank and Trust	750,000
National Boulevard - Chicago	750,000
United States National - Omaha	700,000
Northern City National	600,000
First City National - Binghamton	500,000
American Fletcher - Indianapolis	500,000
New England Merchants - Boston	500,000
The First National Elkhart County	500,000
County National Bank - Middletown, N.Y.	500,000
Davenport Bank & Trust Company	500,000
The Boatmen's National - St. Louis	500,000
Bankers Trust Co. - Des Moines	500,000
Mechanics National - Worcester	500,000
Guaranty Bank and Trust - Denver	390,000
Mohawk National Bank	350,000
Rock Island Bank and Trust Company	350,000
First National - Sioux City	300,000
Douglas County Bank of Omaha	300,000
American National - St. Joseph	250,000
Newton-Waltham Bank and Trust	250,000
Rhode Island Hospital Trust	250,000
Mercantile Trust Company - St. Louis	250,000
First National Bank of St. Joseph	250,000
Merchants National - Syracuse	200,000
First National Bank of Portland	200,000
Proctor Trust Company	200,000
Indian Head National	200,000
Merchants National - Manchester	200,000
National Bank in Tulsa	200,000
North Side Bank - Omaha	200,000
First National - Dubuque	200,000
Second National - Richmond	150,000
First National - Fort Dodge	150,000
Exchange National - Atchison	150,000
First National - Danville	150,000
Fremont National	130,000
Council Bluffs Savings Bank	100,000
Chittenden Trust	100,000
Harvard Trust	100,000
Stock Yards National - South Omaha	100,000
City National - Kansas City	100,000
Livestock National - Sioux City	100,000
First Security Trust & Savings - Chicago	100,000
City National - Hastings	100,000
Boone State Street Bank & Trust Company	50,000
U.S. Total	186,420,000

CANADIAN BANKS (in U.S. Dollars)	LINE
Avco Delta Corporation	
Canadian Imperial Bank of Commerce	925,000
Avco Delta Corporation Canada Limited	
Mercantile Bank of Canada	925,000
The Toronto Dominion Bank	5,000,000
Grand Total	193,270,000

SCHEDULE F
ANALYSIS OF RETAIL AUTO VOLUME FOR THE PERIOD

USE DOLLAR FIGURES ONLY
OMIT CENTS

NEW UNITS — Cash Advanced as a Percentage of DEALER COST*

	24 Mos. or less	25-30 Mos.	31-36 Mos.	Over 36 Mos.	Balloon Paper	Totals***
90% or less	$ 599,653	$ 203,519	$ 1,778,859	$ 371,489	$ 11,657	$ 2,965,177
91%—100%	$ 173,412	$ 79,949	$ 2,679,591	$ 1,353,756	$ 484,637	$ 4,771,345
101%—105%	$ 64,614	$ 66,923	$ 1,784,916	$ 798,364	$ 26,997	$ 2,741,814
106%—110%	$ -	$ -	$ 55,286	$ 21,327	$ -	$ 76,613
Over—110%	$ 1,988	$ 8,237	$ 68,286	$ 12,795	$ -	$ 91,306
Demonstrator Paper	— — — — — —	GIVE DOLLAR	TOTALS ONLY	— — — — — —	— — — — — —	$ 1,587,573
Totals	$ 839,667	$ 358,628	$ 6,366,938	$ 2,557,731	$ 523,291	$ 12,233,828
					% Without Recourse****	78.57 %

USED UNITS (Late Model, Current and two preceding years) Cash Advanced as a Percentage of Used Car Guide WHOLESALE VALUE**

	18 Mos. or less	19-24 Mos.	25-30 Mos.	Over 30 Mos.	Balloon Paper	Totals***
90% or less	$ 163,950	$ 203,890	$ 450,303	$ 609,744	$ 66,566	$ 1,494,453
91%—100%	$ 78,426	$ 91,346	$ 430,085	$ 808,566	$ 107,370	$ 1,515,793
101%—110%	$ 21,434	$ 46,316	$ 289,961	$ 500,791	$ -	$ 858,502
111%—120%	$ 1,933	$ 3,689	$ 23,470	$ 36,827	$ 7,523	$ 73,442
Over—120%	$ -	$ 8,696	$ 21,610	$ 69,286	$ 5,113	$ 104,705
Totals	$ 265,743	$ 353,937	$ 1,215,429	$ 2,025,214	$ 186,572	$ 4,046,895
					% Without Recourse****	83.16 %

USED UNITS (Older Models than above) Cash Advanced as a Percentage of Used Car Guide WHOLESALE VALUE**

	12 Mos. or less	13-18 Mos.	Over 18 Mos.	Balloon Paper	Totals***
90% or less	$ 92,199	$ 73,589	$ 529,476	$ 4,060	$ 699,324
91%—100%	$ 29,751	$ 24,760	$ 527,148	$ 10,967	$ 592,626
101%—110%	$ 23,065	$ 29,261	$ 477,307	$ 2,770	$ 532,403
111%—120%	$ 3,833	$ 11,970	$ 69,718	$ -	$ 85,521
Over—120%	$ 31,689	$ 20,801	$ 145,754	$ 3,124	$ 201,368
Totals	$ 180,537	$ 160,381	$ 1,749,403	$ 20,921	$ 2,111,242
				% Without Recourse****	80.57 %

DIRECT LOANS — Cash Advanced as a Percentage of Used Car Guide WHOLESALE VALUE**

	18 Mos. or less	19-24 Mos.	25-30 Mos.	Over 30 Mos.	Totals***
100% or less	$	$	$	$	$
Over 100%	$	$	$	$	$
Totals	$	$	$	$	$

*Dealer Cost may include invoice plus applicable freight charges, taxes and license fees. Cash Advanced must exclude finance and insurance charges.

**Please state reference book or books used.

***Dollar totals in these columns should agree with respective totals in Schedule A — Page 1.

****Without Recourse means without dealer endorsement, repurchase, deferred credit, withheld reserve, or similar protective provisions.

SCHEDULE G
ANALYSIS OF FLOOR PLAN LOANS TO DEALERS:

CLASSIFICATION	WHOLESALE		
	MAXIMUM OUTSTANDING IN PERIOD	OWING AT STATEMENT DATE	AMOUNT OUTSTANDING 6 MONTHS OR OVER
Automobile—New	$ 7,258,533	$ 7,258,533	$ 637,390
Automobile—Used	$ 354,145	$ 292,861	$ 34,431
Other (Detail) House Trailers	$ 840,239	$ 737,071	$ -
Other	$ 770,498	$ 770,498	$ -
Farm equipment	$ 31,397,610	$ 31,397,610	$ -
	$	$	$
Totals	40,621,025	$ 40,456,573	$ 671,821

Ten Largest Loans to Dealers Based on Used Car Collateral

OWING AT STATEMENT DATE	LOW BOOK VALUE USED CAR COLL.	MAXIMUM LOAN	AM'T OUTSTANDING 6 MONTHS OR OVER	NEW OR USED CAR DEALER
$ 91,823	$ 91,823	$ 91,823	$ 1,758	N
$ 74,144	$ 74,144	$ 75,145	$ 8,229	N
$ 54,945	$ 54,945	$ 54,945	$ 8,232	N
$ 43,499	$ 43,499	$ 59,290	$	U
$ 43,468	$ 43,468	$ 54,654	$ 7,761	N
$ 28,584	$ 28,584	$ 28,584	$	N
$ 26,640	$ 26,640	$ 26,640	$	N
$ 13,459	$ 13,459	$ 19,332	$	U
$ 12,163	$ 12,163	$ 16,326	$	U
$ 11,562	$ 11,562	$ 11,562	$	U

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Carried in Stock by Cadwallader & Johnson, Inc., 225 W. Huron St., Chicago 10 Ill.

SCHEDULE H
CAPITAL LOANS TO AUTOMOBILE DEALERS:

	NUMBER	AMOUNT
Capital Loans owing at statement date	23	$ 1,038,208

List five largest capital loans, describe security, and outline program for liquidation.

195,362 - Mortgages, personal guarantee, assignment of life and fire insurance - 11 payments at $1,850.00 and 1 for the balance.

185,000 - Promissory note, guarantees, second mortgage, assignment of fire insurance - 1 payment at $185,000.

96,082 - Promissory note, assignments of deeds, fire insurance and lease - 1 payment at $96,082.

80,526 - Promissory note, first mortgage, guarantees - 5 payments at $1,942 6 at $2,960 and 1 for the balance.

78,950 - Promissory note, debenture, 2nd mortgage on home, 1st mortgage on cottage, assignment of fire insurance - 35 payments at $1,140 and 1 for the balance.

SCHEDULE I

DEALER RETAIL CONCENTRATIONS:

If the retail volume from any dealer equals or exceeds 10% of total retail volume, complete the following schedule as to such dealers: - Not applicable

DEALER (Identify by Letter)	VOLUME PURCHASED	OUTSTANDING AT STATEMENT DATE	PAST DUE OVER 60 DAYS		DEALERS RESERVE HELD	RECOURSE OR NON-RECOURSE
			INSTALMENTS	BALANCES		
	$	$	$	$	$	
	$	$	$	$	$	
	$	$	$	$	$	
	$	$	$	$	$	
	$	$	$	$	$	
	$	$	$	$	$	
Totals	$	$	$	$	$	

SCHEDULE J

ANALYSIS OF PAST DUE DISCOUNT RECEIVABLES:

(Based on contract terms in effect at questionnaire date)

CLASSIFICATION	RETAIL & DIRECT LOANS (Exclude Direct Cash Loans)	
	INSTALMENTS OVER 60 DAYS	BALANCES OVER 60 DAYS
Automobile (including capital loan delinquency of $36,982)	$	$ 117,735
Other (Detail)	Figures	
Home Improvement division		2,656,563
Farm Equipment division	not	170,705
Capital Equipment division		990,768
	available	
Totals	$	$ 3,935,771

SCHEDULE K - Automobile business only

REPOSSESSIONS:

	NUMBER OF UNITS	AMOUNT
Repossessions on hand and with dealers at beginning of period	90	$ 133,650
Repossessions acquired during period	591	794,036
Repossessions on hand and with dealers at end of period	45	$ 90,341

On what basis are repossessions valued? At approximate market value.

DIRECT CASH LENDING QUESTIONNAIRE

This questionnaire applies to companies engaged principally in making cash loans, generally under Small Loan Acts or similar regulatory laws. Provision has been made in the schedules below for some information regarding non-cash lending operations but if this amounts to a substantial part of your volume, the separate questionnaire for Sales Finance Companies or Commercial Financing Companies should be used in conjunction with this questionnaire. In submitting this questionnaire with financial statements, please ascertain that identical terminology is used and that all figures in each are in agreement. Figures in schedules should be stated to the nearest dollar. If the information requested is already included in an audit report, it need not be duplicated herein.

Name and Address of Company Avco Delta Corporation

Submitted as of July 31,1967 covering the period from December 1, 1966 to May 31, 1967

Does this report include operations of subsidiary or affiliated companies? Yes. If so, please list below the names of any subsidiary or affiliate which has been financed *other* than by advances from the reporting company, the outstanding capital and percentage of ownership of each and the amount and description of outside financing.

Nil

SCHEDULE A (In schedules A, B and C, indicate whether volume is reported on a net or gross basis. Use the same basis for all three schedules.) Gross basis

ANALYSIS OF DIRECT CASH LOAN VOLUME FOR THE PERIOD BY MATURITY CLASS

	Number of Loans	Volume	Average Amount Per Loan
Loans written for 1 to 25 months	70,197	23,606,977	336
26 to 37 months	79,240	96,762,242	1,221
38 to 48 months	918	3,136,616	3,417
49 to 60 months	85	493,042	5,800
more than 60 months	415	1,735,143	4,181
Total Direct Cash Loans	150,855	125,734,020	833

Volume of loans written with a balloon payment, $ 1,829,062

SCHEDULE B

ANALYSIS OF TOTAL VOLUME FOR THE PERIOD – BY PRINCIPAL TYPES OF SECURITY.

	VOLUME		GROSS OUTSTANDINGS
DIRECT CASH LOANS	Number of Loans	$ Amount	X X X
Real estate with or without other security.	76	143,378	X X X
Chattel mortgage on auto, household goods, and/or other security.	115,488	113,928,081	X X X
Unsecured except by co-maker or wage assignment	2,621	1,208,916	X X X
Unsecured (either single name or husband and wife)	32,670	10,453,645	X X X
Sub-total – Direct Cash Loans	150,855	125,734,020	196,374,254
OTHER PAPER PURCHASED (Describe major classes)			
Retail Contracts			
a. Conditional Sales	77,165	25,457,497	37,268,495
b.			
c.			
Other (Describe)			
Sub-Total – Other Paper Purchased	77,165	25,457,497	37,268,495
BULK PURCHASES			
a. Direct Cash Loans			Include in "Sub-total Direct Cash Loans" above.
b. Other Paper	4,446	1,587,813	Include in "Sub-total Other Paper Purchased" above.
Sub-Total – Bulk Purchases	4,446	1,587,813	X X X
GRAND TOTAL – All Classifications	232,466	152,779,330	233,642,749

SCHEDULE C

ANALYSIS OF DIRECT CASH LOAN VOLUME FOR THE PERIOD – BY TYPE OF BORROWER

	Number	Old Balances Renewed	New Money	Total
1. Loans to new borrowers	39,328	X X X X X	24,804,087	24,804,087
2. Loans to former borrowers	15,109	X X X X X	7,613,743	7,613,743
3. Loans to present borrowers	96,418	47,315,078	46,001,112	93,316,190
Totals	150,855	47,315,078	78,418,942	125,734,020

Note: Grand total in fourth column should agree with Direct Cash Loans in Schedule A and Direct Cash Loans sub-total in Schedule B.

Included under Number 3 above were 3,946 loans (number of loans) to present borrowers where the amount of the loan, after deducting both finance charges and insurance charges, did not exceed the old balance renewed by more than 10%. For the purpose of compiling this statistic, the amount of each "Old Balance Renewed" is the unpaid balance owed at the time of refinancing minus all refunds of finance and insurance charges. (Those lenders reporting volume on a gross basis will report old balances on line 3 in the table above "gross", even though this supplementary statistic requires using "net" old balance figures.)

SCHEDULE D – DEFERRED INCOME

Answers to the following questions should be furnished on a separate page entitled "Schedule D."

1. Is any portion of refundable finance charges (interest and/or fees) taken into income as acquisition charges when loans are made or contracts purchased? If answer is Yes, describe the exact basis for determining the portions taken directly into income, and if more than one basis is used, describe each basis and show states and type of business for each basis.

2. Is any portion of non-refundable initial finance charges, where authorized, deferred? If answer is Yes, describe the exact basis for determining the portions deferred, and the method of taking such deferred portions into income.

3. Is any portion of finance charges transferred to accounts other than income, or deferred income, or dealer reserves? If answer is Yes, describe the accounts credited (such as loss reserves, or direct offsets to expenses) and the basis on which the amounts are transferred.

4. Is any portion of refundable insurance charges taken into income as acquisition charges or commissions when loans are made or contracts purchased? If answer is Yes, describe the exact basis for determining the portions taken directly into income, and if more than one basis is used, describe each basis and show states and type of business for each basis.

Answers to questions 5 through 7 should be separated as to "Direct Cash Loans" and "Other Paper Purchased." If any class of "Other Paper Purchased" constitutes more than 15% of total receivables, break your answer down by type of paper such as automobile, household goods, mobile homes, etc.

5. a. What is basic method used in accounting for deferred income (sum of digits, liquidation, straight line or fixed percentage of outstanding)? Is procedure applied on an accrual or collection basis?

   b. If sum of digits or straight line methods are used are new charges inventoried on an account by account basis, spread over actual term by age group or spread over average term by group? If spread over average term, indicate number of months used.

   c. If sum of digits or straight line accrual methods are used, do transfers to income commence in month of acquisition or month following month of acquisition?

6. To what account(s) are rebates charged? If sum of digits or straight line methods are used on groups of accounts are rebates spread over actual terms or some average term? If spread over average term, indicate number of months used.

7. Are extension fees and late charges handled on an accrual or collection basis? Are these items credited to income or deferred income? If deferred income is handled on accrual basis are the charges rescheduled to reflect extensions?

SCHEDULE D - Deferred Income

1. In the U.S. Consumer Finance Division there is a set-up charge of 15%. In the Canadian Consumer Finance Division there is a set-up charge of 15% on all Conditional Sales Contracts. On the precompute business a constant deferred percentage is used (17.4%). This is being increased by 1/10 of 1% per month.

2. None of our divisions defer initial non-refundable finance charges.

3. The balance of all finance charges, after crediting a set-up charge to income, is credited to deferred income.

4. No insurance income is recorded in our consumer finance subsidiaries, other than experience rebates on credit life insurance.

5. (a) The basic method in the U.S. Consumer Finance Division is to account for deferred income on a sum of the digits basis, after taking a 15% set-up charge into income. This is applied on an accrual basis. See 1. above for Canadian Consumer Finance division direct precompute loans.

   (b) The calculation is made by the computer on a separate account basis.

   (c) Transfers to income commence in the month of acquisition <u>but only half the calculated amount</u> is credited to income the first month.

6. Rebates are charged against the net income account.

7. Extension fees and late charges are handled on a collection basis. These items are credited to income. Charges are re-scheduled to reflect extensions.

SCHEDULE E

DIRECT CASH LOANS CLASSIFIED AS TO RECENCY OF PAYMENT *

(Applicable to interest bearing, precomputed and discount basis loans)

	Number	Unpaid Balances
1. 60 day and over accounts a. Accounts which have had no collection of principal, interest or charges for 60 days or more – classified as to the period during which the last collection was received.		
60 – 89 days	1,716	656,215
90 – 179 days	1,877	731,507
180 – 269 days	522	276,735
270 days or more	-	-
b. Accounts on which only interest, deferment, extension and/or default charges were received in the last 60 days.	860	449,167
Total	4,975	2,113,624
2. Partial payment accounts Accounts on which the total amount applied to the unpaid balance in the last 60 days was less than 50% of the *original* contractual monthly payment.	6,984	3,513,218
Total	11,959	5,626,842

Note – None of the classifications in Schedule E shall include any loans made or contracts acquired during the last 60 days. Partial payment accounts should not include any accounts reported in 1a or 1b above. On interest bearing loans, a contractual monthly payment may be assumed to be the original principal amount divided by the scheduled number of monthly payments for purposes of compiling #2. No credit to unpaid balance resulting from a refund associated with accelerating or recomputing an account to put it on an interest bearing basis should be treated as a collection for purposes of classifying accounts above.

3. If the "Other Paper Purchased" section of Schedule B (Volume) was filled out, please furnish a separate schedule for Past Due Accounts in this paper showing (1) Classification (description) of paper; (2) Amount of instalments in each class over 60 days past due: (3) Amount of balances in each class over 60 days past due – ALL BASED ON PRESENT CONTRACT TERMS. These conditional sales contracts are included with our other precomputed direct loans on a contractual basis.

4. If any receivables were purchased in bulk during the period, were these receivables considered as current at time of purchase or are past due accounts recorded above according to their actual degree of delinquency? Past due accounts are recorded according to their actual degree of delinquency.

5. What is your charge-off policy on accounts: No specific period of delinquency is laid down except that all accounts with no payments in the last six months are automatically charged off.
   a. After what period of delinquency is an account charged off?
   b. How often are charge-offs made? Monthly ( ), Quarterly ( ), Semi-Annually ( ), Annually ( ), Other ( ) Please specify . These are made when the supervisor visits a branch and in general this is quarterly.

* Both our consumer loan divisions in the United States and Canada calculate delinquency for our interest bearing direct cash loans on a recency of payment basis. All other loan delinquency is calculated on a contractual basis. An additional schedule is appended to cover the delinquency on these accounts.

SCHEDULE E

Direct loans and conditional sales contract delinquency on a contractual basis.

	Number	Unpaid balances
60 days - 89 days	1,242	742,163
90 days - 179 days	3,200	2,390,855
180 days or more	-	-
Total	4,442	3,133,018

SCHEDULE F – RESERVE FOR LOSSES RECONCILIATION

BALANCE BEGINNING OF PERIOD	4,215,334
ADDITIONS:	
Appropriations from surplus	
Appropriations from income	1,645,577
Recoveries (Reconcile with Schedule G)	451,056
Other credits (Detail)	
Appropriations from deferred income or finance charges	
Total additions	2,096,633
DEDUCTIONS:	
Losses charged (Reconcile with Schedule G)	1,689,024
Transferred to other reserves (Specify)	
Transferred to income	
Other charges (Detail)	
Total deductions	1,689,024
BALANCE END OF PERIOD	4,622,943

SCHEDULE G – LOSS EXPERIENCE FOR PERIOD:

DIRECT CASH LOANS		
Loans Charged Off	(A)	1,483,120
Less–Recoveries		391,609
Net Losses		1,091,511
Average Monthly Outstandings (as determined from Schedule H)	(B)	167,915,347
% Net Losses to Average Outstandings (on an annual basis)		1.30 %
OTHER PAPER*		
Outstandings beginning of period		35,340,182
Volume during period		25,457,497
Notes purchased (bulk)		1,587,813
Total (1)		62,385,492
Less:		
Outstandings end of period		37,268,495
Notes sold (bulk)		
Notes charged off		205,904
Total (2)		37,474,399
Liquidation (1) minus (2)		24,911,093
Notes charged off		205,904
Less Recoveries		59,447
Net Losses		146,457
% Net Losses to Liquidation		.59 %

(A) Are precomputed and discount basis loans charged off net of deferred charges? Yes x No ___.

(B) If answer to A is yes, deduct average unearned charges as determined from Schedule H, Column 3

* Describe the types of receivables classified as "Other Paper" and furnish separate schedule showing beginning and end of period balances for each type:

SCHEDULE H

BALANCES OF DIRECT CASH LOANS AND BREAKDOWN OF COLLECTIONS:

Month	BALANCES OUTSTANDING–BEGINNING OF MONTH			* CASH COLLECTIONS–DURING THE MONTH			Deferred Income Taken into Earnings on Precomputed or Discount Basis Loans (7)	Balances Renewed during month (reconcile with Col. 2–Sched. C (8)
	Interest Bearing Loans (1)	Precomputed or Discount Basis Loans (Incl. Deferred Income) (2)	Reserve for Deferred Income (3)	Applied to Unpaid Face of Notes (4)	Interest and Charges not Applied to Face of Notes (5)	Total Cash Collections (Col. 4 plus 5) (6)		
1.	64,819,410	114,290,910	18,485,225	10,216,969	1,010,506	11,227,475	1,920,559	12,068,563
2.	67,020,980	118,348,434	19,290,862	9,538,061	1,074,685	10,612,746	1,594,779	5,880,798
3.	65,698,828	119,567,957	19,511,161	9,663,850	1,037,899	10,701,749	1,735,003	6,931,662
4.	65,260,198	122,558,155	20,065,022	9,100,185	1,030,006	10,130,191	1,638,381	6,624,299
5.	64,955,363	124,736,315	20,495,726	11,169,223	1,030,746	12,199,969	2,056,023	8,684,122
6.	64,534,625	128,118,363	21,166,420	10,833,204	1,000,118	11,833,322	2,115,193	8,534,935
7.								
8.								
9.								
10.								
11.								
12.								
Totals	392,289,404	727,620,134	119,014,416	60,521,492	6,183,960	66,705,452	11,059,938	48,724,379

Less: Deferred Income taken into Earnings (Col. 7)	11,059,938
Principal Cash Collections	49,461,554

* Do not include rebates

1. Number of Loans outstanding at end of period 250,902 At beginning of period 240,469

   Maximum terms are ______ months. Loans under Consumer Loan Acts 30 - 36 months

   Large consumer loans outside of Consumer Loan Acts 36 - 48 months

2. If the "Other Paper Purchased" section of Schedule B (Volume) was filled out, please furnish a separate schedule similar to Schedule H above, showing by months, Balances Outstanding and Deferred Income at the beginning of the month and Cash Collections thereon. The great majority of these conditional sales contracts are rolled into loans and cash collections are not material.

	Direct Cash Loans	Other Paper Purchased
3. Precomputed or discount basis loans and contracts		
A. Total Finance charges on new contracts acquired and loans made during period.		
1. Dollar amount credited to deferred income	Not available	
2. Dollar amount taken directly into income or credited to other accounts	Not available	
B. Face amount of related receivables acquired	125,734,020	27,045,310
C. Dollar amount of deferred income at end of period	21,861,947	3,792,060
D. Dollar amount of related gross receivables at end of period	196,374,254	37,268,495
4. Dollar amount of interest bearing loans and contracts at end of period	64,649,423	-

SCHEDULE I - See schedule D of the Sales Finance Questionnaire

NOTE: Please attach schedule of latest confirmed lines of credit from banks and name of broker handling sale of open market paper.

BORROWINGS	Specify Secured or Unsecured	*Maximum Amount	*Minimum Amount	Owing at Statement Date
**Bank loans under lines of credit				
**Open market borrowings				
**Other current loans				
Maturities of unsubordinated term debt due within one year		X X X X	X X X X	
Maturities of subordinated term debt due within one year		X X X X	X X X X	
Long term debt – not subordinated				
Long term debt – subordinated				

*As determined by month end balances during the period.

Maximum total short term borrowings at any month end during the period: (All sources marked ** above)

$ ______________________ Date ______________

Have any receivables been sold (with or without recourse) during period? Specify details and amount.

SCHEDULE J

If 5% of your loan volume consisted of loans originally made for $5,000 or more, give the following data on the ten loans having the largest loan balances at the end of the period:
(a) Date made; (b) Original amount; (c) Amount outstanding; (d) Repayment Schedule; (e) Security; (f) Delinquency status.

SCHEDULE K

Please attach auditors' certificate of compliance with restrictive covenants contained in your most restrictive long term debt agreements relating to the maintenance of certain financial ratios and other financial conditions. Audit is made only once a year.

The foregoing information supplements our financial statement of May 31, 1967 prepared by the company and is submitted for the purpose of obtaining credit.

Avco Delta Corporation
(Name of Company)

By [signature]
(Title) President.

PLEASE NOTE: The borrower is invited to submit any other pertinent information which would be of interest to the lender.

AVCO **DELTA CORPORATION** AND SUBSIDIARIES

OFFICERS & DIRECTORS

DIRECTORS

J. R. Gosnell	Executive Vice-President, The Paul Revere Corporation
J. R. Kerr*	President, Avco Corporation
F. S. Larson*	Treasurer, Avco Corporation
M. A. McLaughlin*	Vice-President and General Counsel, Avco Corporation
H. P. Paterno*	President
A. E. Rasmussen*	Financial Vice-President, Avco Corporation
K. R. Wilson, Jr.	Chairman of the Board, Avco Corporation
R. W. Yantis*	Chairman of the Board

*Executive Committee

OFFICERS & STAFF MANAGEMENT

R. W. Yantis	Chairman of the Board
J. R. Kerr	Vice Chairman
H. P. Paterno	President
R. C. Dannecker	Executive Vice President
H. S. Tennant	Executive Vice President
C. J. Connell	Group Vice President
A. E. Rasmussen	Vice President
F. S. Larson	Vice President
D. J. Sadler	Vice President
M. A. McLaughlin	Secretary and General Counsel

DIVISION MANAGEMENT

AUTOMOTIVE DIVISION

W. A. Gallaway — Vice President & General Manager

BANKING DIVISION

T. Jackson — Executive Vice President

CAPITAL EQUIPMENT DIVISION

M. H. Bailey — Vice President & General Manager

CONSUMER FINANCE DIVISION

R. A. Anderson — Vice President & General Manager
T. M. Cumming — Vice President & General Manager
C. L. Newton — Vice President & General Manager

FARM EQUIPMENT DIVISION

H. E. Dickerson — Vice President & General Manager

HOME IMPROVEMENT DIVISION

R. M. Hett — President & General Manager

INSURANCE DIVISION

K. R. Kirkpatrick — Vice President & General Manager

THRIFT DIVISION

S. Nemirow — President & General Manager

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AVCO CORPORATION

750 THIRD AVENUE

NEW YORK, N. Y. 10017

KENDRICK R. WILSON, JR.
CHAIRMAN OF THE BOARD

September 19, 1967

Dear Stockholder:

As was reported in the press and in our most recent Stockholders Newsletter, Avco and The Paul Revere Corporation entered into a formal agreement in early July providing for a proposed combination of the two companies to be accomplished by an exchange by Avco of shares of its common and a new class of preferred stock for shares of Paul Revere. Upon this exchange becoming effective, Avco also proposes to make an offer to its stockholders to exchange shares of the same class of preferred stock for one-half of the Avco shares held by them. These matters will be submitted for shareholder approval at a special meeting of Avco's stockholders to be held in Wilmington, Delaware, on October 24, 1967, as outlined in the formal notice accompanying this letter.

Paul Revere, which has its headquarters in Worcester, Massachusetts, is primarily a holding company, although its Thompson Wire Division produces certain specialized steel products. Its principal subsidiary is The Paul Revere Life Insurance Company, one of the fifty largest United States life insurance companies in terms of assets. Other holdings include a variable annuity insurance company, several savings and loan type institutions, a small loan company based in the southeastern United States, a home improvement financing company, and a majority interest in Vernors Inc., an extract manufacturer. Paul Revere also holds 4,000,000 shares (or approximately 28%) of Avco's outstanding common stock which it acquired by means of a tender offer last winter, and a Paul Revere subsidiary owns another 12,500 common shares of Avco. Complete details as to the history and business of Paul Revere and its subsidiaries are set forth in the accompanying Proxy Statement.

The combination of Paul Revere with Avco will continue the program of balanced diversification which Avco has been following during recent years. Based upon a careful consideration of all relevant factors and the independent review and opinion of The First Boston Corporation (see Appendix A to the Proxy Statement), your Board of Directors and management are firmly convinced that this combination is in Avco's best interests and strongly recommend that it be approved by the stockholders at the special meeting.

Since the favorable vote of two-thirds of the outstanding shares of Avco will be required to approve the proposed combination, we would like to have as many stockholders as possible represented at the meeting. If you are planning to attend the special meeting, we would appreciate your writing to us (or enclosing a note with your proxy) so that we may make all necessary arrangements. Promptly after hearing from you, we will mail you a reservation card which should be presented at the meeting.

In any event, whether or not you expect to be able to attend the meeting, please date, sign and return the accompanying proxy promptly in order to assure the presence of a quorum.

Cordially yours,

Kendrick R. Wilson Jr.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of *AVCO CORPORATION:*

Notice is Hereby Given that a Special Meeting of the stockholders of Avco Corporation (herein called "Avco"), a Delaware corporation, will be held at the Hotel duPont, 11th and Market Streets, Wilmington, Delaware, on Tuesday, October 24, 1967, at 10:00 A.M., Eastern Daylight Time, for the purpose of considering and acting upon a proposal providing for the combination of The Paul Revere Corporation (herein called "Paul Revere") with Avco pursuant to which Avco would

(a) offer to exchange 1.8 shares of its common stock plus one share of a new class of its $3.20 cumulative convertible preferred stock (convertible at any time into two common shares) for each share of the outstanding common stock of Paul Revere,

(b) if the exchange referred to in (a) above becomes effective, offer to exchange (*i*) shares of such new preferred stock for one-half of the common shares owned by each holder of its common stock (other than shares received pursuant to the exchange referred to in (a) above), one such new preferred share being exchanged for each two such common shares, and (*ii*) shares of its common and such new preferred stock for the outstanding shares of its $4.50 cumulative convertible preferred stock, on the same basis as if such $4.50 preferred stock were converted into common stock at its applicable conversion price of $28.20 per share and exchanged as specified in (*i*), and

(c) amend its Certificate of Incorporation to increase its authorized capitalization by an aggregate of 10,091,000 common shares and 6,258,000 preferred shares (being the maximum amount, rounded to the nearest 1,000 shares, needed to effectuate the exchanges referred to in (a) and (b) above) and to make a related change in the voting rights of Avco's preferred stock,

all as more fully described in the attached Proxy Statement.

The close of business on September 18, 1967, has been fixed as the record date for the special meeting or any adjournment thereof, and only holders of record of the common and $4.50 cumulative convertible preferred stock of Avco at said time and date are entitled to notice of and to vote at the meeting. The transfer books of Avco will not be closed.

All stockholders are invited to attend the special meeting, but whether or not you expect to be able to attend, Avco's management respectfully requests that you date, sign and mail the accompanying proxy promptly in the return envelope supplied.

Submitted by order of the Board of Directors.

Gordon M. Tuttle

New York, New York
September 19, 1967

Gordon M. Tuttle, *Secretary.*

INDEX TO PROXY STATEMENT

PROXY STATEMENT

The accompanying proxy is solicited by and on behalf of the management of Avco Corporation ("Avco") for use at the Special Meeting of Stockholders to be held on October 24, 1967, and may be revoked at any time prior to its use.

All costs of soliciting the proxies for this meeting will be borne by Avco. In addition to the use of the mails, proxies may be solicited in person or by telephone or telegraph by officers or regular employees of Avco. Georgeson and Co., 52 Wall Street, New York, New York, has been retained by Avco to assist in such solicitation at a total estimated cost of $15,000.

As of September 18, 1967, the record date for the special meeting, there were 14,152,736 shares of common stock and 35,000 shares of $4.50 cumulative convertible preferred stock of Avco issued and outstanding, entitled to one vote per share, constituting all of the outstanding voting securities of Avco. The presence in person or by proxy of a majority of the aggregate shares of common and $4.50 preferred stock of Avco outstanding as of the record date is necessary to constitute a quorum for the transaction of business at the meeting, and approval of the proposal being presented to the special meeting will be decided by the favorable vote of the holders of two-thirds of Avco's outstanding common and $4.50 preferred shares (taken in the aggregate).

Detailed information concerning the proposal to be considered and acted upon at this meeting is set forth below. The material relating to The Paul Revere Corporation ("Paul Revere") and its subsidiaries and management has been prepared from information furnished or made available by Paul Revere's management.

PROPOSED OFFER TO PAUL REVERE SHAREHOLDERS

PRC Offer

Avco proposes to make an offer (the "PRC Offer") to all holders of shares of the common stock of Paul Revere to exchange

(i) 1.8 shares of Avco's common stock, plus

(ii) one share of a new class of $3.20 cumulative convertible preferred stock of Avco, convertible at any time into two common shares,

for each share of Paul Revere's common stock. Paul Revere presently has issued and outstanding 2,655,543 shares of common stock, which is the only class of its capital stock and the maximum amount of such class authorized by the Paul Revere charter. Accordingly, Avco will be exchanging an aggregate of 2,655,543 shares of its new $3.20 preferred stock and approximately 4,779,977 shares of its common stock if each Paul Revere shareholder accepts the PRC Offer. For detailed information with respect to the capital stocks of both Paul Revere and Avco, including the proposed $3.20 preferred stock of Avco, see the "Capital Stock" captions under the respective "History and Business" headings for the two companies below.

The PRC Offer will be made by means of a tender letter to be mailed shortly after the special meeting of stockholders and will provide for a period of not less than 30 nor more than 45 days for acceptance of the offer. No fractional shares of common stock will be issued by Avco in exchange for the Paul Revere shares. All fractional interests in such stock will be paid by Avco in cash, valuing

the Avco common shares for this purpose at their closing price on the New York Stock Exchange on the date of the PRC Offer.

Conditions; Effectiveness of Offer

The exchange of shares pursuant to the PRC Offer will be subject to the express condition that Paul Revere shareholders holding at least 80% of the common stock of Paul Revere shall have tendered their shares to Avco for exchange prior to the expiration of the exchange period. In addition, Avco is not obligated either to make the PRC Offer or to exchange its shares pursuant thereto unless the following further conditions are fulfilled to its satisfaction:

1. The making of the PRC Offer shall have been approved by the holders of at least two-thirds of the common and $4.50 preferred shares of Avco (taken in the aggregate) at the time outstanding.

2. A ruling shall have been obtained from the United States Treasury Department to the effect that (*i*) if the holders of the requisite percentage of Paul Revere shares referred to above tender such shares for exchange pursuant to the PRC Offer, such exchange will constitute a reorganization within the meaning of Section 368(a)(1)(B) of the Internal Revenue Code of 1954 and no gain or loss (except to the extent of cash paid for fractional interests) will be recognized by Avco, Paul Revere or such Paul Revere stockholders under Section 354 of the Code, (*ii*) the exchange by Avco shareholders of shares of its common stock for shares of the new $3.20 preferred stock of Avco pursuant to the supplementary Avco Offer referred to below will constitute a recapitalization within the meaning of Section 368(a)(1)(E) of the Code and no gain or loss will be recognized by Avco or such Avco stockholders under Section 354 of the Code, and (*iii*) Section 306(a) of the Code is not applicable to the $3.20 preferred stock of Avco to be issued pursuant to the PRC Offer and such supplementary Avco Offer, provided that this latter ruling need not apply to the preferred stock to be received by certain principal stockholders of Paul Revere and their families.

3. Avco's Certificate of Incorporation shall have been duly amended so as to increase its capitalization by an amount sufficient to permit the exchange of Avco shares pursuant to the PRC Offer and the supplementary Avco Offer referred to below.

4. The shares of common and $3.20 preferred stock of Avco to be exchanged pursuant to the PRC Offer (*i*) shall have been duly registered under the Securities Act of 1933, as amended, and in the case of the preferred stock, under the Securities Exchange Act of 1934, as amended, and under the applicable laws of each other jurisdiction as, in the opinion of Avco's General Counsel, may be required and (*ii*) shall have been duly approved for listing on the New York, Midwest and Toronto Stock Exchanges.

5. Avco shall have received a supplementary agreement signed by certain Paul Revere stockholders containing representations and warranties as to the business of Paul Revere and its subsidiaries and providing for the indemnification of Avco for a period of three years against all losses in excess of $500,000 in the aggregate resulting from undisclosed liabilities, misrepresentations and breaches of warranty, such indemnification to be secured by (and limited to) an aggregate of 100,000 shares of Avco's common stock to be deposited in escrow by the signing stockholders.

6. Avco shall have received satisfactory evidence, including officers' certificates, accountants' reports and opinions of counsel, that Paul Revere's organization, existence, business operations, capitalization and financial condition, and that of its subsidiaries, are as theretofore represented to Avco and that the Paul Revere stockholders have full legal power and authority to tender their shares to Avco under the provisions of the Investment Company Act of 1940, as amended.

The Federal Communications Commission has advised Avco in writing that no approval of the commission is required in connection with the exchange of shares pursuant to the PRC Offer.

The PRC Offer is expected to become effective shortly after all of the conditions referred to above have been satisfied, even though the exchange period may not have expired. The exchange of shares pursuant to the terms of such offer will be physically consummated as soon as practicable thereafter.

Expenses

Avco estimates that it will incur maximum aggregate expenses, assuming the PRC Offer becomes effective as mentioned above, of approximately $975,000 in consummating the exchange of shares pursuant to both the PRC Offer and the supplementary Avco Offer referred to below. These expenses include registration and listing fees, the cost to it of satisfying the conditions referred to above, a fee of $100,000 payable to The First Boston Corporation for their services as financial advisor to Avco (see below), and legal, accounting and printing fees and expenses. No commission or other payment is or will be due to any broker or finder in connection with either exchange.

The Paul Revere stockholders signing the supplementary agreement referred to above will agree to pay all expenses incurred by Paul Revere in connection with the satisfaction of the conditions referred to above, any legal fees incurred by Paul Revere in connection with the PRC Offer, and the fees and expenses of any Exchange Agent designated to act in connection with the exchange of shares pursuant to such offer.

Background Information

Late in 1966 and early in 1967, representatives of Paul Revere met, at their request, with senior officers of Avco to explore generally the possibility of a merger of the two companies, but no agreement or understanding was reached regarding such a merger.

On January 27, 1967, Avco's management was advised that Paul Revere would make a tender offer to Avco's stockholders to purchase 4,000,000 shares of its common stock at a price of $33 per share ($4.50 higher than the closing price of Avco's common stock that day on the New York Stock Exchange), and an announcement of the proposed tender offer was released publicly that afternoon. More than 9,200,000 shares of Avco's common stock were tendered pursuant to the offer, which provided for a tender period of two weeks expiring on February 17, 1967, but Paul Revere limited itself to acquiring on a pro rata basis the 4,000,000 shares for which it had initially made the offer. For information as to the sources of the funds used to purchase these Avco shares, see Note 9 to Paul Revere's consolidated financial statements.

Paul Revere continues to own beneficially and of record the 4,000,000 common shares of Avco acquired as a result of its tender offer, and one of Paul Revere's subsidiaries owns an additional 12,500 common shares. This ownership represents approximately 28% of the total number of Avco's presently outstanding common shares, and, accordingly, Paul Revere might be considered to be a parent of Avco under the regulations of the Securities and Exchange Commission. In addition, the officers and directors of Paul Revere beneficially owned an aggregate of 482,729 common shares of Avco as of July 15, 1967.

Discussions regarding the possibility of combining the two companies were reinitiated by Paul Revere on March 9, 1967. From and after that date, extensive detailed negotiations took place between the parties as to the nature of the proposed combination and its terms. Avco selected The First Boston Corporation to act as its independent advisor to evaluate the business of Paul Revere and to help to determine the fairness and appropriateness of the combination terms.

The foregoing negotiations culminated in the execution of an Exchange Agreement, dated as of July 5, 1967, between Avco and Paul Revere. Avco's obligations under the agreement are as outlined above. Paul Revere obligated itself to recommend acceptance of the PRC Offer to its stockholders, subject to the fulfillment to its satisfaction of conditions similar to those described above for Avco, and to cooperate fully in effectuating the proposed exchange of shares.

Paul Revere has filed an application with the Securities and Exchange Commission for an order declaring that it is not an "investment company" within the meaning of the Investment Company

Act of 1940, as amended, or in the alternative, for an order exempting it from all of the provisions of said Act. In connection with this application, Paul Revere agreed in early 1967 that it and other persons in their transactions and relations with it shall be subject to the Act, with certain limited exceptions, as though it were a registered investment company, pending receipt by it of notice of the action taken by the Commission on the application. No such action has yet been taken on this application, and as noted under the caption "Conditions; Effectiveness of Offer" above, it is a prerequisite to the making and consummation of the PRC Offer that the Paul Revere stockholders have authority to tender their shares to Avco under the provisions of the Investment Company Act of 1940.

Late in April 1967, a class action was commenced in the United States District Court for the Southern District of New York against Paul Revere, Avco, Robert D. Harrington, President and a director of Paul Revere, and John R. Gosnell, Executive Vice President of Paul Revere and a director of both companies, by an Avco stockholder who had allegedly tendered shares of Avco's common stock for sale to Paul Revere in response to its tender offer. The complaint alleges violations of the Securities Exchange Act of 1934 in failing to disclose material facts in connection with the offer and asks for damages or rescission of the sale on behalf of the plaintiff and all others similarly situated. Answers denying the material allegations of the complaint have been filed by each of the defendants, and they have been advised by their respective counsel that the claims alleged in this action, which presently remains in a preliminary pre-trial stage, are without merit.

Business Reasons

As set forth in detail under the heading "History and Business of Avco" below, Avco's sales have historically been dependent in large part upon the defense and space programs of the United States Government. This factor has provided the impetus for Avco's successful efforts during recent years to broaden and diversify its commercial operations where such operations could fruitfully be combined with the existing activities of the corporation. The proposed combination with Paul Revere represents another large step in this diversification effort.

Paul Revere will bring to Avco substantial insurance operations and interests in the specialty steel manufacturing, small loan, home improvement and savings and loan areas that will complement Avco's present activities. Avco will provide the Paul Revere shareholders with an investment in an enterprise having interests in a broad range of commercial and government business activities. (See the respective "History and Business" headings for the two companies below.)

The exchange ratio on which the PRC Offer is based was approved by Avco and Paul Revere after lengthy consideration of various relevant factors, including the market prices of the respective common stocks of the two companies (see below), each company's assets, earnings and prospects for future growth, and the business advantages which are expected to accrue to both as a result of the combination. For detailed information as to the reported and pro forma earnings and cash dividends per share, see the heading "Certain Financial and Accounting Information" below. The First Boston Corporation has reported to Avco in writing that in its opinion an exchange of Avco and Paul Revere shares on the proposed basis would be fair and in the best interests of Avco's stockholders, and this opinion is attached as Appendix A to this Proxy Statement.

Future Operations and Management

If the PRC Offer becomes effective and Avco exchanges its stock for Paul Revere shares in accordance with its terms, Paul Revere will become an Avco subsidiary. It is not contemplated, however, that there will be any major change in the present organizational structure, general operating methods or (except as set forth below) management personnel of either Paul Revere or Avco.

Upon the consummation of the exchange, Messrs. Orville F. Grahame, Francis A. Harrington, Frank L. Harrington, Frank L. Harrington, Jr., Robert D. Harrington and Edward R. Hodgkins, all of whom are presently directors of Paul Revere, are expected to be elected to the Board of Directors of Avco by the present members of such Board, to hold office for the same term as the present Avco

directors. In addition, it is expected that Robert D. Harrington will be elected Vice Chairman of Avco's Board, Frank L. Harrington, Jr. will be elected a Vice President, Orville F. Grahame will be elected Vice President and General Counsel-Insurance, and John R. Gosnell will be elected Chairman of the Finance Committee, a new management committee of Avco to be formed from among the members of Avco's Board of Directors. Each of these men has been a senior officer of either Paul Revere or its principal subsidiary, The Paul Revere Life Insurance Company, and, with the exception of Frank L. Harrington, Jr. who became a director in 1964, a director of Paul Revere for more than five years. Mr. Gosnell has been a director of Avco since December 11, 1964 and a member of Avco's Executive Committee since July 30, 1965.

Kendrick R. Wilson, Jr. will continue to be Chairman of the Board and Chief Executive Officer and James R. Kerr will continue to be President and Chief Operating Officer of Avco, and no change is expected to be made in the other officers of Avco. For further information with respect to Avco's present management, see the heading "History and Business of Avco — Management" below.

Information with respect to the amounts of the common stocks of Avco and Paul Revere beneficially owned by the Paul Revere officers and directors named above as of July 15, 1967, as well as the aggregate direct remuneration paid to them by Paul Revere and its subsidiaries in 1966 and the estimated annual retirement benefits payable to each upon retirement at age 65 (assuming no change in present rates of compensation) under the contributory Pension Plan of Paul Revere is set forth in the following table:

	Avco shares(1)	Paul Revere shares(1)(2)	Remuneration(3)	Retirement benefits(3)(4)
John R. Gosnell	48,379	268	$45,352	$34,920
Orville F. Grahame	100	4,124	50,167	22,381
Francis A. Harrington	9,600	238,514	22,300	15,478
Frank L. Harrington	111,941	96,325	76,000	34,269
Frank L. Harrington, Jr.	7,739	27,372	50,783	51,718
Robert D. Harrington	190,086	143,365	70,171	31,734
Edward R. Hodgkins	10.840	179,941	25,533	17,610

(1) These shares include a substantial number of shares owned by wives, minor children and trusts, as to which beneficial ownership by the named individuals has been disclaimed under applicable regulations.

(2) An aggregate of 80,700 of these Paul Revere shares were acquired by the named individuals in April 1967 in exchange for an equal number of shares of The Paul Revere Life Insurance Company, as approved by Paul Revere's stockholders at their 1967 Annual Meeting.

(3) Subsequent to December 31, 1966, the aggregate annual salaries payable to Messrs. Gosnell, Grahame, Frank L. Harrington, Jr. and Robert D. Harrington were increased to $75,000, $76,000, $76,000 and $116,000, respectively. The respective estimated annual retirement benefits payable to such individuals as set forth above reflect such salary increases.

(4) Payments are computed on an actuarial basis under the Pension Plan, which provides for fixed benefits in the event of retirement at a specified age.

Paul Revere and its subsidiaries own approximately 36.5% of the outstanding common stock of Allied Innkeepers Limited of Ontario, Canada. In the ordinary course of business since 1965 and at rates competitive with those available in the open market, Avco's subsidiary, Avco Delta Corporation Canada Limited, has leased chattels and made secured loans to subsidiaries of Allied which operate motor inns in Canada, and such leases and loans have been guaranteed by Allied. An aggregate of $29,000 of interest (representing an annual interest rate of 11%) and $144,000 of lease rentals were paid by these subsidiaries to Avco Delta Canada during the fiscal year 1966, and the amounts outstanding under such leases and loans aggregated $1,420,000 at May 31, 1967.

An employee group insurance plan which provides medical benefits and life insurance for employees of Avco Delta Corporation Canada Limited and certain of its subsidiaries has been written through

The Paul Revere Life Insurance Company since 1955, and Paul Revere Life also provides credit life and accident and health insurance coverage for borrowers from Avco Delta Canada and certain of its subsidiaries. The aggregate amounts of net premiums paid during 1966 for these two classes of insurance coverage were $149,000 and $860,000, respectively, representing rates competitive with those available on the open market.

Comparative Market Prices

The table below sets forth the high and low selling prices of Avco's common stock on the New York Stock Exchange and the high and low bid and asked prices of Paul Revere's common stock on the over-the-counter market for each calendar quarter commencing January 1, 1965:

	Avco		Paul Revere			
			Bid*		Asked*	
	High	Low	High	Low	High	Low
1st quarter, 1965	26⅜	21⅛	130	115	133	118
2nd quarter, 1965	25	19	122	113	125	115
3rd quarter, 1965	24½	19¼	116	99	119	102
4th quarter, 1965	27⅜	21½	106	94	110	97
1st quarter, 1966	29	23⅝	104	97	107	100
2nd quarter, 1966	31½	23⅛	98	82	100	86
3rd quarter, 1966	27¾	20⅜	88	69	91	73
4th quarter, 1966	24¼	20	87	70	92	73
1st quarter, 1967	45	22½	165	76	170	80
2nd quarter, 1967	56¼	40	182	147	186	150
July 1, 1967 to September 15, 1967	65⅜	51⅜	220	180	235	186

* As reported by The First Boston Corporation prior to June 1, 1966 and by The Wall Street Journal thereafter.

The first public announcement of the exchange ratio applicable to the proposed exchange of shares pursuant to the PRC Offer was made on April 21, 1967. See the caption "Background Information" above for information regarding other recent developments involving Avco and Paul Revere.

Dividends

For information with respect to the dividends paid by Avco and Paul Revere on their common shares in recent years, see the heading "Certain Financial and Accounting Information" below.

It is expected that the PRC Offer will become effective, assuming the conditions referred to above have been met, on a date subsequent to the record date for the dividend customarily paid by Avco on its common stock in late November. Accordingly, no Paul Revere stockholder will receive any dividends paid or to be paid by Avco during its 1967 fiscal year as a result of the exchange of shares pursuant to the PRC Offer. Provision has been made in the Exchange Agreement, however, to permit Paul Revere to declare and pay dividends aggregating 86¢ per share on its common stock between the date of such agreement and the effective date of the PRC Offer.

Reference is made to the caption "Capital Stock — Dividend Restrictions, etc." under the heading "History and Business of Avco" below for information as to certain limitations on the payment of dividends by Avco on its capital stock.

PROPOSED OFFER TO AVCO SHAREHOLDERS

Avco Offer

If the PRC Offer becomes effective, Avco also proposes to make an offer (the "Avco Offer")

(i) to all holders of shares of its common stock (except as specified below) whereby they

may exchange one-half of such common stock at the time owned by them for shares of Avco's new $3.20 preferred stock, receiving one such preferred share for each two common shares exchanged, and

(ii) to all holders of shares of its $4.50 preferred stock whereby they may exchange such shares for shares of the common and $3.20 preferred stock of Avco, receiving the same number of shares of such common and preferred stock as they would be entitled to receive if such $4.50 preferred stock were converted into common stock of Avco at its applicable conversion price of $28.20 per share and exchanged as specified in (i) above.

For detailed information with respect to the common and $4.50 preferred stocks of Avco, and the proposed $3.20 preferred stock, see the heading "History and Business of Avco — Capital Stock" below.

The Avco Offer will be made only to stockholders of record as of a date shortly prior to the effective date of the PRC Offer. (See the heading "Proposed Offer to Paul Revere Shareholders — Conditions; Effectiveness of Offer" above.) Accordingly, Paul Revere stockholders receiving common shares of Avco pursuant to the PRC Offer will not be entitled to submit such shares for exchange pursuant to the Avco Offer. Since the Avco Offer will be limited to a specific record date, no separate rights or warrants to acquire preferred shares will be issued pursuant to this offer, and only an even number of common shares of Avco (up to the maximum of one-half of such shares owned) may be tendered for exchange by each stockholder.

Based upon the number of shares of Avco's common and $4.50 preferred stock outstanding on May 31, 1967, plus the 160,832 common shares reserved for issuance as of that date which could be issued prior to the anticipated date of the Avco Offer pursuant to outstanding Avco commitments, and assuming that all such shares which may be tendered in response to the Avco Offer are so tendered, an aggregate of approximately 3,602,353 shares of $3.20 preferred stock and 62,057 common shares would be issued pursuant to such offer, and approximately 7,204,708 common shares (including such 62,057 shares but excluding common shares issued pursuant to the PRC Offer) would remain outstanding following the offer. (See the debt and capitalization table appearing under the heading "Certain Financial and Accounting Information" below).

Paul Revere has informed Avco that it intends to accept the Avco Offer, if made, and to tender one-half of the shares of Avco's common stock which it presently owns in response to such offer. If the PRC Offer becomes effective, however, the Avco shares subsequently owned by Paul Revere will, under applicable provisions of Delaware law, neither be entitled to vote nor be counted for quorum purposes.

Conditions; Payment of Expenses

It is anticipated that the only condition to which the making of the Avco Offer will be subject is that the exchange of Avco shares for shares of Paul Revere pursuant to the PRC Offer must become effective in accordance with its terms. All expenses of the Avco Offer will be paid by Avco, other than any stock transfer taxes due upon the issuance of $3.20 preferred shares in names other than the names of the registered holders of the common shares tendered for exchange.

Background

During the negotiations with respect to the proposed combination of Avco and Paul Revere described above and at a time when it was apparent that the terms of such exchange would involve the issuance of a large amount of senior securities, the management of Avco concluded that Avco's existing shareholders should be permitted to participate in the new class of preferred stock. Accordingly, provision was included in the Exchange Agreement for such participation on the basis outlined above, which is roughly equivalent to the basis on which the Paul Revere stockholders will be entitled to participate in the $3.20 preferred stock.

PROPOSED AMENDMENTS OF AVCO'S CHARTER

Increase of Capitalization

Avco's Certificate of Incorporation presently provides for an authorized capitalization of 20,000,000 shares of common stock and 200,000 shares of preferred stock. As indicated in the debt and capitalization table appearing under the heading "Certain Financial and Accounting Information" below, 14,124,469 common shares and 35,000 preferred shares of Avco were outstanding as of May 31, 1967, and an additional 401,738 common shares were reserved for various purposes as of that date. This left a total of only 5,473,793 common shares and 165,000 preferred shares available for future issuance by Avco.

If the PRC Offer becomes effective, Avco will be required, as mentioned above, to issue a maximum of approximately 4,779,977 additional shares of common stock and 2,655,543 shares of preferred stock pursuant to such offer. The issuance of these preferred shares, which will by their terms be convertible at any time into twice the number of common shares, will require Avco to have available for issuance in the future another 5,311,086 shares of common stock, making a total of 10,091,063 common shares required for the PRC Offer. In addition, as mentioned above, the Avco Offer, if accepted by all those holding common and $4.50 preferred shares as of May 31, 1967, and all those who could hold common shares issued after that date and prior to the anticipated date of the Avco Offer, would require Avco to issue another 3,602,353 shares of preferred stock, making a total of 6,257,896 preferred shares required for both offers. These totals substantially exceed the respective amounts of common and preferred shares presently authorized by Avco's charter.

After careful consideration of the foregoing facts, Avco's management has concluded that its capitalization should be increased by the maximum amounts of common and preferred shares needed for the two exchanges, rounded to the nearest 1,000 shares. Accordingly, the Board of Directors has adopted a resolution authorizing the management, subject to the approval of Avco's stockholders at the special meeting, to file an amendment to Avco's Certificate of Incorporation with the Secretary of State of Delaware increasing the authorized number of its common shares from 20,000,000 to 30,091,000 and the authorized number of its preferred shares from 200,000 to 6,458,000. These increases will be used only if the PRC Offer becomes effective.

This new capitalization would, after consummation of the exchanges of shares contemplated by the PRC Offer and the Avco Offer, leave available for issuance in the future for other purposes approximately the same number of common and preferred shares as are presently available for such purposes (assuming conversion of the $4.50 preferred shares) plus any shares not issued pursuant to such offers. In addition, substantial amounts of Avco's common and preferred shares will be held by Paul Revere following the two offers, as disclosed in the notes to the debt and capitalization table appearing under the heading "Certain Financial and Accounting Information" below, and will be available for use, subject to any restrictions on the disposition of such shares contained in the agreement refinancing the Paul Revere bank loan referred to in Note 9 to its consolidated financial statements. Although there are no present plans or arrangements to issue any additional shares of common or preferred stock except pursuant to these offers, and no discussions or negotiations for any such issuance are currently taking place, the Board and management of Avco feel strongly that Avco should continue to have ample latitude to enter into future agreements deemed advantageous to the corporation which might require the issuance of additional shares of its capital stock.

Prior to any issuance of additional shares, Avco would, of course, solicit approval of the transaction from its stockholders as and to the extent such approval is required by applicable law or federal regulation or by the terms of any other commitment of Avco. Included among such requirements is the New York Stock Exchange policy that stockholder approval is a prerequisite to listing additional securities to be issued in connection with any transaction which could result

in an increase in the number of outstanding common shares approximating 20% or more, or in connection with the granting of employee stock options under a new or extended stock option plan covering shares in excess of the number theretofore authorized for such purpose.

Preferred Voting Rights

All preferred stock of Avco has voting rights of one vote per share, but Avco's charter presently provides that the holders of its preferred shares have the right to elect two directors in the event that dividends on such preferred stock are in arrears in a specified amount and that this special voting right by class is in lieu of the normal voting rights held by the preferred shares. (See the heading "History and Business of Avco — Capital Stock" below.)

This latter provision is not of material importance when the preferred stock authorized by the charter represents only a small portion of the total capitalization of the company. If, however, Avco's capitalization is increased as proposed above, the provision might in certain circumstances work to the disadvantage of the preferred stockholders. Accordingly, Avco's Board of Directors has approved, subject to the approval of the stockholders at the special meeting, an amendment to its Certificate of Incorporation which would specifically provide that the special voting right granted to preferred stockholders in the event of dividend arrearages shall be "in addition to and not in lieu of" their normal voting rights.

MANAGEMENT RECOMMENDATIONS

Since the Avco Offer is dependent upon the effectiveness of the PRC Offer, and since neither offer may be consummated in the absence of the charter amendment increasing Avco's capitalization as outlined above, and since the proposed voting right amendment is closely related to the capitalization amendment, all of the matters discussed in the preceding sections of this Proxy Statement are being presented as a single proposal to the stockholders at the Special Meeting of Stockholders. The management of Avco firmly believes that the proposed exchange of shares pursuant to the PRC Offer is in Avco's best interests, and it strongly recommends that the stockholders approve such exchange, together with the related Avco Offer and charter amendments, at the special meeting. Reference is also made to the favorable recommendation of The First Boston Corporation set forth in Appendix A to this Proxy Statement.

In this connection, it is the intention of the persons named in the proxy accompanying this Proxy Statement, unless specifically instructed to the contrary as indicated therein, to vote all proxies received by them in connection with the Special Meeting of Stockholders ***FOR*** the proposed exchanges of shares pursuant to the PRC Offer and the Avco Offer and the related charter amendments described above. There are no appraisal or equivalent dissenting rights available to Avco's stockholders with respect to these matters.

As mentioned above, the approval of these matters will be decided by the affirmative vote of the holders of two-thirds of Avco's outstanding common and $4.50 preferred shares. Avco has been informed by Paul Revere that the common shares of Avco presently owned by it will be voted in favor of the proposal being presented to the special meeting.

Debt and Capitalization of Avco and Paul Revere

The following table sets forth the long term debt and capitalization of Avco and its consolidated subsidiaries as of May 31, 1967 (the debt of Avco Delta Corporation and its subsidiaries being separately shown), the long term debt and capitalization of Paul Revere and its subsidiaries as of June 30, 1967, and the pro forma combined long term debt and capitalization:

	Avco Corporation	The Paul Revere Corporation	Pro forma
	(Stated in thousands of dollars)		
Long term debt			
Avco Corporation:			
Notes payable under revolving credit agreement with banks (a)	$ 75,000		$ 75,000
4⅞% notes due in annual installments of $2,500,000 until October 1, 1985	50,000		50,000
5% convertible subordinated debentures maturing February 1, 1979	1,573		1,573
Miscellaneous (interest rates to 6% and maturities to 1978)	804		804
	127,377		127,377
Less current portion	2,766		2,766
	$124,611		124,611
Avco Delta Corporation (b):			
Senior notes (5%-6¾%)	$148,914		147,914(c)
Senior subordinated notes (5¼%-6½%)	31,637		31,237(c)
Junior subordinated notes (5⅝%-6¾%)	17,252		17,252
5½% sinking fund debentures	136		136
	197,939		196,539
Less current portion	6,578		6,403
	$191,361		190,136
The Paul Revere Corporation*:			
Notes payable to banks (d)		$65,000	65,000
Promissory notes (5¾%-6%)		14,000	14,000
Senior notes (5⅝%-6¼%)		3,650	3,650
Senior subordinated notes (6⅛%-6½%)		930	930
Junior subordinated notes (6½%-7%)		400	400
6⅝% subordinated capital notes		500	500
Miscellaneous		455	455
		84,935	84,935
Less current portion		9,315	9,315
		$75,620	75,620
Total			$390,367

	Avco Corporation	The Paul Revere Corporation	Pro forma
		(Stated in shares)	
Capital stock			
Avco Corporation:			
Preferred stock (without par value) — Authorized: 200,000 (e)			
Issued: \$4.50 cumulative convertible (\$100 liquidating value)	35,000		— (f)
\$3.20 cumulative convertible (\$6 stated value and \$40 liquidating value)	—		5,214,563(g)(h)
Common stock (\$3 par value) — Authorized: 20,000,000 (i)			
Issued (j)	14,124,469(k)		9,898,019(g)(l)(m)
The Paul Revere Corporation:			
Common stock (\$5 par value) — Authorized: 2,655,543			
Issued		2,655,543	— (g)

(a) This agreement provides a revolving line of credit of \$100,000,000 until April 15, 1970 at the prime rate of interest.

(b) For a description of Avco Delta's long term debt, see Note 3 to its consolidated financial statements.

(c) Eliminates \$1,000,000 principal amount of senior notes and \$400,000 principal amount of senior subordinated notes held by Avco.

(d) Reference is made to Note 9 to Paul Revere's consolidated financial statements.

(e) To be increased to 6,458,000 shares, subject to stockholder approval.

(f) Assumes all \$4.50 preferred stock is submitted for exchange.

(g) Assumes all Paul Revere common shares and the maximum number of Avco common and \$4.50 preferred shares are submitted for exchange.

(h) Eliminates 1,003,125 preferred shares to be received by Paul Revere, which will be a subsidiary of Avco.

(i) To be increased to 30,091,000 shares, subject to stockholder approval.

(j) Eliminates 100 treasury shares.

(k) An additional 401,738 shares were reserved for various purposes as described in Note 5 to Avco's consolidated financial statements. As mentioned under the heading "Proposed Amendments of Avco's Charter" above, 160,832 of these reserved shares could be issued prior to the anticipated date of the Avco Offer. If such shares were so issued and the holders thereof accepted the Avco Offer, an additional 80,416 common shares and 40,208 \$3.20 preferred shares would be outstanding on a pro forma basis.

(l) Eliminates 2,006,250 common shares to be held by Paul Revere, which will be a subsidiary of Avco.

(m) An additional 10,706,751 shares would be reserved as described above under the heading "Proposed Amendments of Avco's Charter".

*Subsequent to June 30, 1967, Peoples National Fund, Inc. became a wholly-owned subsidiary of Paul Revere. (See Note 4 to Paul Revere's consolidated financial statements.) As of that date, the long term debt of Peoples was as follows:

Senior notes (6%-7¼%)	\$13,275,000
Senior subordinated notes (6⅛%-7¼%)	4,215,000
Junior subordinated notes (6¾%-7%)	1,485,000
	18,975,000
Less current portion	220,000
	\$18,755,000

Consolidated Earnings of Avco(a)

The following statement of consolidated earnings of Avco Corporation for the five years ended November 30, 1966 has been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere herein. The information for the six months ended May 31, 1966 and May 31, 1967 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which Avco considers necessary for a fair presentation of the results for these periods. This statement should be read in conjunction with the other consolidated financial statements of Avco and of Avco Delta Corporation included elsewhere herein. Results for interim periods are not necessarily indicative of results for the entire year.

	Year ended November 30,					Six months ended May 31, (unaudited)	
	1962	1963	1964	1965	1966	1966	1967
	(Stated in thousands of dollars)						
Net sales(b)	$414,280	$514,132	$431,076	$443,195	$604,219	$265,915	$327,071
Equity in consolidated net earnings of Avco Delta Corporation(a)				3,561	4,901	2,826	3,484
Other income	679	555	975	1,905	674	193	218
	414,959	514,687	432,051	448,661	609,794	268,934	330,773
Costs and expenses:							
Cost of sales	332,629	419,875	336,712	351,854	484,206	210,376	267,958
Selling and administrative(c)	34,687	40,298	43,596	42,623	52,808	23,116	26,113
Depreciation	6,932	6,507	6,234	7,042	8,808	4,482	5,044
Interest on long term debt, including revolving credit	1,262	1,069	894	2,411	5,955	2,423	3,800
Other interest	109	145	70	398	1,003	293	1,321
	375,619	467,894	387,506	404,328	552,780	240,690	304,236
Earnings before income taxes and non-recurring income	39,340	46,793	44,545	44,333	57,014	28,244	26,537
Income taxes:							
U. S. federal(d)	20,183	24,229	21,656	19,888	25,035	12,320	11,003
Canadian federal and provincial	367	131	244	12	(35)	191	47
	20,550	24,360	21,900	19,900	25,000	12,511	11,050
Earnings before non-recurring income	18,790	22,433	22,645	24,433	32,014	15,733	15,487
Profit on sale of a television broadcasting property, less applicable U. S. federal income tax of $447,000	1,250						
Net earnings	$ 20,040	$ 22,433	$ 22,645	$ 24,433	$ 32,014	$ 15,733	$ 15,487
Per share of common stock:							
Net earnings(e)(f)	$1.83	$2.00	$2.05	$1.78	$2.30	$1.14	$1.10
Dividends(g)	.67½	.80	1.00	1.00	1.05	.50	.60

Notes to statement of consolidated earnings:

(a) For information concerning Avco's investment in Avco Delta Corporation, see Note 1 to Avco's consolidated financial statements.

(b) A substantial portion of Avco's 1966 and 1967 sales is subject to renegotiation (prior years having been cleared) by the Government, but Avco does not anticipate that any refund will be required. (See the heading "History and Business of Avco — Sales and Backlog; Renegotiation" appearing elsewhere herein.)

(c) Under the plan (amended during 1965) approved by Avco stockholders, there is payable as incentive compensation 10% of the amount by which consolidated earnings (as defined) exceed 8% of consolidated capital (as defined), both as determined by Avco's independent auditors. Incentive compensation available with respect to each of the above periods (included in selling and administrative expenses) was as follows: 1962, $2,838,000; 1963, $3,683,000; 1964, $3,358,000; 1965, $3,450,000; 1966, $4,916,000; six months 1966, $2,414,000; and six months 1967, $2,248,000.

(d) The investment tax credit, which is not material in amount, is being applied as a reduction of the provision for U. S. federal income tax.

(e) Profit on sale of a television broadcasting property less applicable U. S. federal income tax included in 1962 net earnings amounted to $.11 per share.

(f) Earnings per common share are based on the average number of common shares outstanding during the respective periods and after deducting preferred stock dividends of $39,000 in 1965, $158,000 in 1966, and $79,000 in each of the six month periods.

(g) For restrictions on payment of cash dividends, see the heading "Capital Stock — Dividend Restrictions, etc." appearing elsewhere herein.

The decline in net sales for 1964, as contrasted with the net sales for 1963, resulted principally from completion in early 1964 of a major government contract.

Consolidated Income of Paul Revere (a)

The following statement of consolidated income of The Paul Revere Corporation for the two years ended December 31, 1966 has been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere herein. The information for the three years ended December 31, 1964 and for the six months ended June 30, 1966 and June 30, 1967 is unaudited but includes all adjustments (consisting only of normal recurring accruals) which Paul Revere considers necessary for a fair presentation of the results for these periods. This statement should be read in conjunction with the other financial statements of Paul Revere and of The Paul Revere Life Insurance Company appearing elsewhere herein. Results for interim periods are not necessarily indicative of results for the entire year.

	Year ended December 31,					Six months ended June 30, (unaudited)	
	(unaudited)						
	1962	1963	1964	1965	1966	1966	1967
	(Stated in thousands of dollars)						
Investments and insurance businesses:							
Interest and dividend income (including $1,200,000 received from Avco Corporation in 1967) (b)	$ 2,087	$ 2,114	$ 2,141	$ 2,145	$ 2,055	$ 1,105	$ 1,430
Expenses:							
Interest	83	93	319	289	530	242	1,502
Other operating expenses	173	80	165	195	316	148	386
Total expenses	256	173	484	484	846	390	1,888
	1,831	1,941	1,657	1,661	1,209	715	(458)
Net income of health insurance business (c)	1,559	1,353	1,974	1,842	1,743	931	—
Equity in earnings of Paul Revere Life (a):							
Before capital gains	5,483	5,387	5,800	6,917	8,561	4,044	4,915
Net realized capital gains (losses)	629	(448)	2,796	4,534	3,382	3,341	6,559
Net realized capital gains of Paul Revere less applicable income taxes, other than extraordinary gain shown below (d)	826	1,000	5,779	4,151	3,240	3,299	78
Income from investments and insurance businesses	10,328	9,233	18,006	19,105	18,135	12,330	11,094
Finance and savings and loan subsidiaries:							
Interest, discounts and service charges	1,722	2,265	6,934	8,508	10,798	4,420	6,174
Expenses:							
Interest and debt expense	1,000	1,271	3,929	4,855	5,763	2,593	3,272
Other operating expenses	790	872	1,543	1,516	2,827	613	2,041
U. S. federal and Canadian income tax	5	106	582	734	658	348	226
Total expenses	1,795	2,249	6,054	7,105	9,248	3,554	5,539
Income (loss) of finance and savings and loan subsidiaries	(73)	16	880	1,403	1,550	866	635
Manufacturing subsidiary (a):							
Net sales				17,855	39,014	19,921	17,820
Costs and expenses:							
Cost of sales				16,056	33,083	16,904	15,456
Selling and administrative				619	2,143	1,023	1,252
Interest				315	992	521	472
Federal income tax				400	1,230	648	280
Minority interest				192	623	341	—
Total costs and expenses				17,582	38,071	19,437	17,460
Income of manufacturing subsidiary				273	943	484	360
Income before extraordinary capital gain	10,255	9,249	18,886	20,781	20,628	13,680	12,089
Extraordinary capital gain, less income taxes of $7,363,000, on disposition of marketable securities in connection with purchase of common shares of Avco Corporation (b)	—	—	—	—	—	—	20,439
Net income (a)	$10,255	$ 9,249	$18,886	$20,781	$20,628	$13,680	$32,528
Per share of common stock:							
Income before extraordinary capital gain	$3.86	$3.48	$7.11	$7.83	$7.77	$5.15	$ 4.55
Extraordinary capital gain (b)	—	—	—	—	—	—	7.70
Net income (e)	$3.86	$3.48	$7.11	$7.83	$7.77	$5.15	$12.25
Dividends	$1.35	$1.43	$1.52	$1.60	$1.72	$ .86	$ .86

Notes to statement of consolidated income:

(a) For information as to the principles of consolidation, see Note 1 to Paul Revere's consolidated financial statements. Operations of majority-owned subsidiaries acquired during the period have been included since the dates of acquisition. Paul Revere's manufacturing subsidiary, acquired in July 1965, was merged into Paul Revere in May 1967 and is being operated as a division. (See Note 4 to Paul Revere's consolidated financial statements.) Retroactive adjustment has been made to include net income applicable to additional shares of The Paul Revere Life Insurance Company acquired subsequent to December 31, 1966 in a transaction accounted for as a pooling of interests. (See Note 3 to Paul Revere's consolidated financial statements.)

(b) For information concerning the purchase of common shares of Avco, see Note 9 to Paul Revere's consolidated financial statements.

(c) For information concerning the health insurance business transferred to Paul Revere Life effective January 1, 1967, see Notes 3 and 7 to Paul Revere's consolidated financial statements.

(d) Federal taxes deducted from Paul Revere's realized capital gains were as follows: 1962, $238,000; 1963, $252,000; 1964, $1,600,000; 1965, $1,230,000; 1966, $1,252,000; six months 1966, $1,129,000; and none in the six months 1967.

(e) Net income per share for each period is based upon 2,655,543 shares outstanding, which amount includes 255,543 shares issued subsequent to December 31, 1966 in the pooling of interests mentioned in (a) above and gives effect to a four-for-three stock split in 1963.

The decrease in income before extraordinary capital gain for the six months ended June 30, 1967, as contrasted with the corresponding 1966 period, resulted principally from the change in Paul Revere's investment portfolio incident to its purchase of shares of Avco and the related borrowings. See Note 9 to Paul Revere's consolidated financial statements.

Pro Forma Statement of Combined Earnings (a)

The following statement represents the pro forma combination of the consolidated results of operations of Avco, Avco Delta and Paul Revere after giving effect to the proposed combination as a pooling of interests, assuming full acceptance of the PRC Offer and the Avco Offer. This statement, the compilation of which has been reviewed by Arthur Young & Company, certified public accountants, as set forth in their report appearing elsewhere herein, should be read in conjunction with the other financial statements included in this Proxy Statement.

	Year ended November 30,					Six months ended May 31,	
	1962	1963	1964	1965	1966	1966	1967
	(Stated in thousands of dollars)						
Manufacturing operations:							
Net sales	$416,209	$514,687	$432,051	$462,769	$643,815	$285,989	$345,070
Costs and expenses:							
Cost of sales	332,629	419,875	336,712	367,522	516,438	226,852	282,949
Selling and administrative	34,687	40,298	43,596	43,235	54,938	24,132	27,359
Depreciation	6,932	6,507	6,234	7,437	9,672	4,917	5,515
Interest	1,371	1,214	964	3,316	8,122	3,578	4,841
U. S. federal and Canadian income taxes	20,550	24,360	21,900	20,300	26,230	13,159	11,330
	396,169	492,254	409,406	441,810	615,400	272,638	331,994
Earnings of manufacturing operations	20,040	22,433	22,645	20,959	28,415	13,351	13,076
Insurance subsidiaries and investment operations:							
Equity in earnings of insurance subsidiaries, before capital gains (a)	7,194	6,960	8,002	9,347	11,537	5,611	5,445
Interest and dividend income	2,087	2,114	2,141	2,145	2,055	1,105	230
Net realized capital gains (including insurance subsidiaries), other than extraordinary gain shown below	1,455	552	8,575	8,685	6,622	6,640	6,637
	10,736	9,626	18,718	20,177	20,214	13,356	12,312
Expenses:							
Interest	83	93	319	289	530	242	1,502
Other operating expenses	173	80	165	195	316	148	386
	256	173	484	484	846	390	1,888
Earnings of insurance subsidiaries and investment operations	10,480	9,453	18,234	19,693	19,368	12,966	10,424
Finance subsidiaries:							
Interest, discount and service charges	14,701	23,221	35,738	48,825	66,626	31,307	39,350
Expenses:							
Interest and debt expense	5,523	7,935	12,537	16,385	23,368	10,732	14,022
Provision for losses on collection of receivables	1,761	2,148	3,675	5,211	6,676	2,246	3,895
Other operating expenses	5,824	9,178	12,958	17,705	25,497	11,913	15,154
U. S. federal and Canadian income taxes	837	1,984	3,129	4,487	5,830	3,104	3,263
Preferred stock dividends paid by subsidiaries	153	210	409	475	396	216	140
	14,098	21,455	32,708	44,263	61,767	28,211	36,474
Earnings of finance operations	603	1,766	3,030	4,562	4,859	3,096	2,876
Pro forma adjustment for interest expense, less applicable income taxes (b)	(3,721)	(3,721)	(3,876)	(4,031)	(4,031)	(2,016)	(504)
Combined earnings before extraordinary capital gain	27,402	29,931	40,033	41,183	48,611	27,397	25,872
Extraordinary capital gain, less income taxes of $7,363,000, on disposition of marketable securities in connection with Paul Revere's purchase of common shares of Avco Corporation	—	—	—	—	—	—	20,439
Pro forma combined net earnings	27,402	29,931	40,033	41,183	48,611	27,397	46,311
Dividend requirements on $3.20 preferred stock (b)	15,481	16,210	16,250	16,277	16,460	8,208	8,311
Pro forma combined earnings applicable to common stock (b)	$ 11,921	$ 13,721	$ 23,783	$ 24,906	$ 32,151	$ 19,189	$ 38,000
Per share of common stock (b):							
With all $3.20 preferred outstanding (c):							
Before extraordinary capital gain	$1.30	$1.43	$2.47	$2.58	$3.30	$1.97	$1.78
Extraordinary capital gain	—	—	—	—	—	—	2.07
Net earnings	$1.30	$1.43	$2.47	$2.58	$3.30	$1.97	$3.85
If all $3.20 preferred converted	$1.46	$1.52	$2.02	$2.08	$2.43	$1.37	$2.29*

* Consists of $1.28 applicable to earnings before extraordinary capital gain and $1.01 of extraordinary capital gain.

Notes to pro forma statement of combined earnings:

(a) Pro forma combined net earnings include the net earnings of Avco, Avco Delta and Paul Revere; amounts included for Paul Revere in each period are for its fiscal period beginning in Avco's fiscal year. All significant subsidiaries are consolidated except for insurance subsidiaries; equity in earnings of these insurance subsidiaries is included in pro forma combined earnings. In accordance with the accounting treatment described in Note (d) to the pro forma statement of combined financial position (see below), amounts applicable to Avco Delta Corporation Canada Limited have been included above for all periods.

Intercompany interest and dividends have been eliminated in the pro forma amounts and federal income taxes of insurance subsidiaries of Avco Delta have been reclassified to conform to the treatment for such subsidiaries described above.

(b) Pro forma earnings per common share are based on the average number of common shares outstanding during each period after giving retroactive effect to the issuance of the maximum number of common and $3.20 preferred shares of Avco on the same basis as provided in the PRC Offer and the Avco Offer described elsewhere herein. Pro forma earnings and average shares reflect, as of the beginning of 1962, an assumed borrowing of $134,820,000 at 5¾% (reduced in February 1967 by the proceeds from disposition of marketable securities), the use of such borrowing to purchase 4,012,500 common shares of Avco at that date, the exchange of such acquired shares on the same basis as provided in the Avco Offer and the immediate retirement, for accounting purposes, of the shares acquired upon such exchange. The adjusted average number of outstanding common shares used in the computation of pro forma earnings per share for each of the above periods is as follows: 1962, 9,144,839; 1963, 9,600,060; 1964, 9,624,787; 1965, 9,641,774; 1966, 9,756,229; six months 1966, 9,728,687; and six months 1967, 9,857,938.

(c) Under accounting concepts presently being developed for reporting earnings per share, convertible preferred securities may be considered the equivalent of common stock (i.e. residual securities) based generally on the relationship between the market value of the common shares into which each preferred share is convertible and the assumed market price of a share of a similar hypothetical nonconvertible preferred stock. It cannot be determined at this time whether the $3.20 convertible preferred stock will at some time in the future be treated as a residual security. If it were so treated at this time, earnings per share reported for the common stock would be materially less than the pro forma per share figures shown.

Reported and Pro Forma Earnings and Cash Dividends

The following table compares the reported earnings and cash dividends per common share of Avco and Paul Revere with the pro forma combined earnings and cash dividends applicable to the equivalent of each such share after giving effect to the exchanges of shares contemplated by the PRC Offer and the Avco Offer and the related retirement for accounting purposes of the Avco stock held by Paul Revere.

	Year ended November 30,					Six months ended May 31,		
						1966	1967	
	1962	1963	1964	1965	1966		Earnings before extraordinary capital gain	Net earnings
Earnings —								
Avco stockholder*:								
Avco's reported earnings per common share (page 12)	$1.83	$2.00	$2.05	$1.78	$2.30	$1.14	$1.10	$ 1.10
Pro forma combined earnings applicable to equivalent preferred and common shares (a)(c)	1.45	1.51	2.04	2.09	2.45	1.39	1.29	2.33
Paul Revere stockholder:								
Paul Revere's reported earnings per common share (page 14)	$3.86	$3.48	$7.11	$7.83	$7.77	$5.15	$4.55	$12.25
Pro forma combined earnings applicable to equivalent Avco preferred and common shares (b)(c)	5.54	5.77	7.65	7.84	9.14	5.15	4.81	8.54
Cash Dividends —								
Avco stockholder*:								
Avco's actual dividends per common share (page 12)	$ .67½	$ .80	$1.00	$1.00	$1.05	$ .50	$ .60	
Pro forma dividends applicable to equivalent preferred and common shares (d)	1.14	1.20	1.30	1.30	1.33	.65	.70	
Paul Revere stockholder:								
Paul Revere's actual dividends per common share (page 14)	$1.35	$1.43	$1.52	$1.60	$1.72	$ .86	$ .86	
Pro forma dividends applicable to equivalent Avco preferred and common shares (e)	4.42	4.64	5.00	5.00	5.09	2.50	2.68	

* Pro forma earnings and cash dividends applicable to each share of Avco's $4.50 preferred stock are equivalent to those applicable to .886 share of $3.20 preferred plus 1.77 shares of common received.

(a) Represents dividend on .25 share of $3.20 preferred received plus earnings applicable to .5 share of common retained.

(b) Represents dividend on one share of $3.20 preferred plus earnings applicable to 1.8 shares of Avco common received.

(c) Conversion of all of the $3.20 preferred would not have a material effect on the amounts shown for pro forma equivalent earnings.

(d) Represents dividend on .25 share of $3.20 preferred received plus dividend applicable to .5 share of common retained.

(e) Represents dividend on one share of $3.20 preferred plus dividend applicable to 1.8 shares of Avco common received.

Pro Forma Statement of Combined Financial Position (a)

The following statement represents the pro forma combination as of May 31, 1967 of the consolidated financial positions of Avco, Avco Delta and Paul Revere after giving effect to the proposed combination as a pooling of interests, assuming full acceptance of the PRC Offer and the Avco Offer. This statement, the compilation of which has been reviewed by Arthur Young & Company, certified public accountants, as set forth in their report appearing elsewhere herein, should be read in conjunction with the other financial statements included in this Proxy Statement.

ASSETS

	Avco Corporation	Avco Delta Corporation	The Paul Revere Corporation	Adjustments	Pro forma combined
	(Stated in thousands of dollars)				
Current assets					
Cash	$ 41,679	$ 20,741	$ 5,612		$ 68,032
Marketable securities, at cost (approximate market)	2,098	2,194	14,341	$ (370)(b)	18,263
Receivables:					
Finance subsidiaries (including amounts due after one year):					
Retail installment		251,834	15,364		267,198
Loans		196,374	119,476		315,850
Other		42,459	314		42,773
		490,667	135,154		625,821
Unearned discount and service charges and allowance for losses		(66,157)	(2,561)		(68,718)
		424,510	132,593		557,103
U. S. government	59,149				59,149
Other	53,515		3,038	(3,136)(b)	53,417
Net receivables	112,664	424,510	135,631	(3,136)	669,669
Inventories:					
U. S. government contracts and subcontracts (less progress payments of $74,784,000)	93,962				93,962
Civilian	64,885		6,628		71,513
	158,847		6,628		165,475
Other current assets		3,381			3,381
Total current assets	315,288	450,826	162,212	(3,506)	924,820
Property, plant and equipment, at cost:					
Land	3,132	371	1,540		5,043
Plant and equipment	162,530	3,664	22,165		188,359
	165,662	4,035	23,705		193,402
Accumulated depreciation	(81,963)	(1,492)	(7,431)		(90,886)
	83,699	2,543	16,274		102,516
Excess of cost of investments in subsidiaries over acquired equity in net assets, being carried without amortization	20,227	55,388	9,583	(41,564)(d)	43,634
Investment in Avco Delta Corporation	109,705			(109,705)(b)	—
Investment in Avco Corporation			135,315	(135,315)(c3)	—
Investment in insurance subsidiaries (a)		6,989	109,966		116,955
Other assets	13,241	1,212	7,947	(1,400)(b)	21,000
	$542,160	$516,958	$441,297	$(291,490)	$1,208,925

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Avco Corporation	Avco Delta Corporation	The Paul Revere Corporation	Adjustments	Pro forma combined
	(Stated in thousands of dollars)				
Current liabilities					
Finance subsidiaries:					
Notes payable:					
Banks		$ 76,085	$ 5,495		$ 81,580
Commercial paper		97,734		$ (370)(b)	97,364
Long term debt installments due within one year		6,578	5,070	(175)(b)	11,473
Savings deposits and dealers' reserves and holdbacks		21,552	105,161	(3,136)(b)	123,577
		201,949	115,726	(3,681)	313,994
Other commercial paper	$ 50,950				50,950
U. S. federal and Canadian income taxes	13,765	2,205	5,821		21,791
Other current liabilities	90,344	6,991	23,303		120,638
Total current liabilities	155,059	211,145	144,850	(3,681)	507,373
Long term debt	124,611	191,361	75,620	(1,225)(b)	390,367
Minority interests in subsidiaries		4,747	761		5,508
Stockholders' equity:					
Preferred stock (authorized, 200,000 shares; pro forma, 6,458,000 shares):					
$4.50 cumulative convertible (liquidation preference: $3,500,000; issued and outstanding, 35,000 shares; pro forma, none)	3,500			(3,500)(c2)	—
$3.20 cumulative convertible (liquidation preference: $208,582,000; issued and outstanding, none; pro forma, 5,214,563 shares)				15,933 (c1) 21,373 (c2) (6,019)(c3)	31,287
Common stock:					
Avco: authorized, 20,000,000 shares (pro forma, 30,091,000 shares); issued and outstanding, 14,124,469 shares (pro forma, 9,898,019 shares)	42,374			14,340 (c1) (21,001)(c2) (6,019)(c3)	29,694
Avco Delta		33,850		(33,850)(b)	—
Paul Revere			13,278	(30,273)(c1) 16,995 (c5)	—
Additional paid-in capital	82,919	63,909		(63,909)(b) 3,128 (c2) (5,408)(c3) (16,995)(c5) (36,964)(d)	26,680
Retained earnings (e)	133,700	11,946	206,788	(11,946)(b) (117,872)(c3) (4,600)(d)	218,016
Cost of treasury stock	(3)			3 (c3)	—
Total stockholders' equity	262,490	109,705	220,066	(286,584)	305,677
	$542,160	$516,958	$441,297	$(291,490)	$1,208,925

See accompanying notes.

Notes to pro forma statement of combined financial position:

(a) The pro forma statement of combined financial position includes the consolidated accounts of Avco and Avco Delta at May 31, 1967 and the consolidated accounts of Paul Revere at June 30, 1967. The basis at which the investment in nonconsolidated insurance subsidiaries is stated is set forth in Note 1 to the consolidated financial statements of Avco Delta and Notes 1 and 2 to the consolidated financial statements of Paul Revere.

(b) Amounts applicable to intercompany transactions have been eliminated in the above combination.

(c) Pro forma stockholders' equity gives effect as of May 31, 1967 to the proposed pooling of interests as follows, assuming the issuance of the maximum number of Avco preferred and common shares pursuant to the PRC Offer and the Avco Offer:

(1) issuance pursuant to the PRC Offer of 2,655,543 shares of Avco's $3.20 preferred stock stated at $6 per share (convertible into 5,311,086 Avco common shares) plus 4,779,977 shares of Avco's common stock at par value of $3 per share in exchange for 2,655,543 shares of Paul Revere's common stock at par value of $5 per share,

(2) issuance pursuant to the Avco Offer of 3,562,145 shares of Avco's $3.20 preferred stock stated at $6 per share (convertible into 7,124,290 Avco common shares) plus 62,057 shares of Avco's common stock at par value of $3 per share in exchange for 7,062,234 shares of Avco's common stock and 35,000 shares of Avco's $4.50 preferred stock,

(3) charges to the accounts for $3.20 preferred stock, common stock, additional paid-in capital and retained earnings of $6,019,000, $6,019,000, $5,408,000 and $117,872,000, respectively, to retire, for accounting purposes, the Avco capital stock which will be held by the combined companies,

(4) inclusion of Paul Revere's earned surplus in combined retained earnings, and

(5) charge of $16,995,000 to additional paid-in capital representing the excess of the aggregate of the stated and par values of the Avco stock to be issued over the aggregate par value of the outstanding Paul Revere common stock.

(d) Pro forma stockholders' equity also reflects a reduction in the amount at which the capital contribution of shares of Delta Acceptance Corporation Limited (now Avco Delta Corporation Canada Limited) to Avco's wholly-owned finance subsidiary, Avco Delta Corporation, is stated. After such reduction, the capital contribution is stated at the amount of the net assets of Delta acquired. The contribution was previously stated at the market value of the Avco shares exchanged for Delta shares. Such reduction will be made only if the proposed combination of Avco and Paul Revere is consummated, since the fact that, immediately prior to the acquisition by Avco of the shares of Delta, certain officers and stockholders of Paul Revere were directors and substantial stockholders of Delta, is significant in the determination that such accounting adjustment is appropriate.

(e) Liquidating value of Avco's $3.20 preferred stock will exceed its stated value by approximately $177,295,000. In the opinion of Avco's counsel, this excess will not impose any restriction on the payment of dividends from retained earnings.

Actual and Pro Forma Book Values

The following table shows the pro forma book value of net assets per common share of Avco and Paul Revere combined as of May 31, 1967, and compares the actual book values per common share of Avco and Paul Revere at May 31, 1967 and June 30, 1967, respectively, with the pro forma book values applicable to the equivalent of each such share, after giving effect to the exchanges contemplated by the PRC Offer and the Avco Offer and the related retirement for accounting purposes of the Avco stock held by Paul Revere.

	Book value
Pro forma — Avco and Paul Revere combined (a)	$ 9.81
Avco common stockholder:	
Actual	$18.34
Pro forma book value applicable to equivalent preferred and common shares (b)(d)	14.90
Paul Revere common stockholder:	
Actual	$82.87
Pro forma book value applicable to equivalent Avco preferred and common shares (c)(d)	57.66

(a) After deduction of the $3.20 preferred shares at their liquidating value of $40 per share.

(b) Represents liquidating value of .25 share of $3.20 preferred received plus book value applicable to .5 share of common retained.

(c) Represents liquidating value of one share of $3.20 preferred plus book value applicable to 1.8 shares of Avco common received.

(d) Conversion of all of the $3.20 preferred would not have a material effect on the amounts shown for pro forma equivalent book value.

General

The Paul Revere Corporation is a Massachusetts corporation which was organized on June 10, 1895 as a fraternal accident and health association known as The Masonic Protective Association. After being reincorporated as a stock company on June 12, 1909, the company continued to write accident and health insurance for members of the Masonic fraternity only, although in recent years family groups could be included where the head of the family was a member of this fraternity. The name of the corporation was changed to The Massachusetts Protective Association, Incorporated in 1922, and to its present name on January 1, 1967.

Prior to January 1, 1967, Paul Revere was primarily engaged in the accident and health insurance business, specializing in the writing of individual non-cancellable accident and health insurance. All of its business was written on the latter basis starting in 1918, and Paul Revere was one of the top 14 companies from the standpoint of total non-cancellable and guaranteed renewable accident and health premiums in force as of December 31, 1966.

On January 1, 1967, Paul Revere transferred its entire insurance business to its subsidiary, The Paul Revere Life Insurance Company, in exchange for 120,000 shares of the latter's stock, and changed its business purposes from those of an insurance company to those of a general business corporation. The corporation presently has one operating division, but does business primarily through subsidiaries and controlled corporations, as described below. Certain statistics relating to the insurance business formerly conducted by Paul Revere are included in tables appearing under the caption "The Paul Revere Life Insurance Company" below.

Reference is made to the caption "Background Information" above for information with respect to a pending application filed by Paul Revere under the Investment Company Act of 1940, as amended.

The Paul Revere Life Insurance Company

Business

The Paul Revere Life Insurance Company is a wholly-owned Massachusetts subsidiary of Paul Revere which has operated since 1930 in the fields of individual and group life and accident and health insurance. It offers a complete line of life (both ordinary and term), endowment and retirement income policies, as well as accident and health policies offering hospitalization, major medical and "loss of time" coverage. All of Paul Revere Life's insurance business is written on a non-participating basis, although its group business is subject to experience rating whereby the policyholder may receive a refund of premium arising from his favorable experience. The individual accident and health policies are non-cancellable and guaranteed renewable and give the insured the right to continue his policy at the contracted premium to age 65 (60 for females).

Paul Revere Life has its home office in Worcester, Massachusetts, and is licensed in all states of the United States, the District of Columbia, and in eight Canadian provinces. It is one of the largest writers of non-cancellable accident and health insurance in the United States, ranking among the top five companies in this field based on premiums in force as of December 31, 1966. On the basis of life insurance in force as of December 31, 1966, Paul Revere Life is among the top 5% in size of all United States life insurance companies, while it was fiftieth in terms of admitted assets on that date. As stated above, on January 1, 1967 Paul Revere Life acquired the insurance business formerly conducted by its parent company.

Growth

The following table shows the growth of the insurance business conducted by Paul Revere Life (and, where indicated, Paul Revere) during the years 1962 through 1966 and for the first six months of 1967 in terms of admitted assets, life insurance written, life insurance in force, new annualized accident and health premiums, accident and health premiums in force and premiums received by class:

	Year ended December 31,					Six months ended
	1962	1963	1964	1965	1966	June 30, 1967(a)
	(Stated in thousands of dollars)					
Admitted assets at end of period:						
Paul Revere Life (b)	$ 234,583	$ 259,805	$ 288,210	$ 329,468	$ 348,247	$ 385,818
Paul Revere	99,932	116,593	121,595	145,431	137,848	—
Life insurance written (c):						
Whole life	$ 78,105	$ 91,497	$ 103,198	$ 107,110	$ 125,658	$ 75,564
Term	40,687	56,844	69,540	79,566	94,047	54,905
Group	90,468	102,239	137,239	119,785	183,095	*
Total	$ 209,260	$ 250,580	$ 309,977	$ 306,461	$ 402,800	*
Life insurance in force at end of period (c):						
Whole life	$ 543,191	$ 589,793	$ 645,434	$ 697,570	$ 764,231	$ 802,148
Term	168,295	189,444	215,949	248,561	279,644	302,504
Group	408,754	490,422	594,767	670,054	745,256	*
Total	$1,120,240	$1,269,659	$1,456,150	$1,616,185	$1,789,131	*
New annualized accident and health premiums:						
Individual:						
Paul Revere Life	$ 4,974	$ 5,088	$ 5,366	$ 5,392	$ 6,174	$ 3,685
Paul Revere	1,158	1,066	1,069	947	870	—
Group	1,411	1,579	1,794	1,730	1,910	894
Total	$ 7,543	$ 7,733	$ 8,229	$ 8,069	$ 8,954	$ 4,579
Accident and health premiums in force at end of period:						
Individual:						
Paul Revere Life	$ 26,273	$ 26,998	$ 28,287	$ 29,959	$ 31,289	$ 43,648
Paul Revere	12,158	12,016	11,885	11,982	11,722	—
Group	10,619	12,089	14,038	15,267	15,103	*
Total	$ 49,050	$ 51,103	$ 54,210	$ 57,208	$ 58,114	$ *
Direct premiums received:						
Life insurance						
Individual (d)	$ 16,033	$ 17,286	$ 18,540	$ 19,780	$ 21,023	$ 11,277
Group	2,039	2,661	3,024	3,372	3,643	1,692
Total	18,072	19,947	21,564	23,152	24,666	12,969
Annuities						
Individual	673	1,140	3,786	3,418	2,910	3,512
Group	2,384	2,420	2,999	3,246	2,531	1,381
Total	3,057	3,560	6,785	6,664	5,441	4,893

	Year ended December 31,					Six months ended
	1962	1963	1964	1965	1966	June 30, 1967(a)
Accident and health	(Stated in thousands of dollars)					
Individual:						
Paul Revere Life	$ 24,168	$ 25,613	$ 27,006	$ 28,282	$ 29,901	$ 21,566
Paul Revere	12,260	12,163	12,017	11,906	11,629	—
Group	8,564	9,786	11,153	12,794	13,099	6,722
Total	44,992	47,562	50,176	52,982	54,629	28,288
Total direct premiums received	66,121	71,069	78,525	82,798	84,736	46,150
Plus reinsurance premiums assumed	1,963	2,255	2,579	2,692	2,992	*
Less reinsurance premiums ceded	(253)	(325)	(382)	(199)	(205)	(71)
Net premiums received	$67,831	$72,999	$80,722	$85,291	$87,523	*

* Certain industry program figures, such as those for the federal employees group life program, are significant and are only available at year-end.

(a) Includes assets and operations relating to the health insurance business transferred from Paul Revere to Paul Revere Life on January 1, 1967.

(b) Before giving pro forma effect prior to 1967 to assets relating to the health insurance business transferred from Paul Revere to Paul Revere Life, as described in Note 3 to Paul Revere's consolidated financial statements.

(c) Reinsurance assumed has been included, and reinsurance ceded has not been deducted. Reinsurance ceded as of the end of each period was as follows: 1962, $21,965,000 (including $2,035,000 group); 1963, $25,740,000 (including $2,013,000 group); 1964, $28,792,000 (including $2,860,000 group); 1965, $25,360,000 (including $1,006,000 group); 1966, $27,625,000 (including $1,129,000 group); and 1967, $26,772,000 (including $1,147,000 group).

(d) A breakdown between whole life and term is not readily available.

Paul Revere Life is required by the insurance laws and regulations under which it operates to charge all expenses incurred in placing new business on the books to current earnings when they are incurred, while the income produced by such expenses is distributed over the entire term of the policy's life. The effect of this required accounting treatment, together with the requirements as to reserves outlined below, is to reduce underwriting profits during periods of increasing premium volume and to increase such profits during periods of decreasing premium volume.

Analysis of Life Insurance Written

The following table sets forth data on Paul Revere Life's experience with respect to net additions of life insurance in force, ratio of voluntary terminations and ratio of actual to expected mortality for the period since January 1, 1962:

	Year ended December 31,					Six months ended
	1962	1963	1964	1965	1966	June 30, 1967
Additions:	(Stated in thousands of dollars)					
Issued						
Whole life	$ 70,030	$ 82,323	$ 95,385	$100,532	$116,916	$ 69,650
Term	37,086	54,867	66,107	73,665	77,973	51,872
Group	34,887	33,945	45,433	45,204	36,005	*
Total	142,003	171,135	206,925	219,401	230,894	*
Reinsurance assumed						
Whole life	—	—	—	—	—	—
Term	—	—	—	—	—	—
Group	—	—	484	—	68,581	—
Total	—	—	484	—	68,581	—
Revived						
Whole life	7,226	8,199	7,260	6,106	7,463	4,794
Term	3,392	1,896	3,349	5,718	15,893	2,733
Group	—	—	—	—	—	—
Total	10,618	10,095	10,609	11,824	23,356	7,527

	Year ended December 31, 1962	1963	1964	1965	1966	Six months ended June 30, 1967
	(Stated in thousands of dollars)					
Increased						
Whole life	$ 849	$ 975	$ 553	$ 472	$ 1,279	$ 1,120
Term	209	81	84	183	181	301
Group	55,581	68,294	91,322	74,581	78,509	*
Total	56,639	69,350	91,959	75,236	79,969	*
Total additions	209,260	250,580	309,977	306,461	402,800	*
Terminated by:						
Death						
Whole life	3,315	3,469	3,505	3,759	3,749	2,632
Term	522	600	785	676	749	715
Group	1,989	2,538	2,719	3,517	3,359	*
Total	5,826	6,607	7,009	7,952	7,857	*
Maturity						
Whole life	1,153	1,210	1,297	2,067	1,988	760
Term	45	54	22	31	71	37
Group	—	—	—	—	—	—
Total	1,198	1,264	1,319	2,098	2,059	797
Expiry						
Whole life	—	—	—	—	—	—
Term(a)	13,320	13,283	14,661	19,189	27,139	10,125
Group	—	—	—	—	—	—
Total	13,320	13,283	14,661	19,189	27,139	10,125
Surrender						
Whole life	8,775	9,226	10,054	12,222	15,692	9,696
Term	4,101	3,988	5,518	7,329	10,108	8,148
Group	—	—	—	—	—	—
Total	12,876	13,214	15,572	19,551	25,800	17,844
Lapse						
Whole life	21,664	22,383	23,578	25,340	27,351	14,650
Term	20,517	22,798	25,271	26,017	28,807	16,952
Group	13,981	18,033	31,934	40,981	104,534	*
Total	56,162	63,214	80,783	92,338	160,692	*
Decrease						
Whole life	1,943	2,264	2,736	3,123	3,641	4,058
Term	1,446	1,316	1,405	2,176	2,666	1,919
Group	—	—	—	—	—	—
Total	3,389	3,580	4,141	5,299	6,307	5,977
Total terminations	92,771	101,162	123,485	146,427	229,854	*
Net additions	$116,489	$149,418	$186,492	$160,034	$172,946	*
Ratio of voluntary terminations to mean amount of insurance in force	7.6%	7.8%	7.9%	8.1%	8.1%	4.5%
Ratio of actual to expected mortality	45%	46%	47%	54%	46%	64%

* Certain industry program figures, such as those for the federal employees group life program, are significant and are only available at year-end.

(a) Includes extended term resulting from automatic conversion of whole life upon default in payment of premiums.

The number and average size of the individual life policies written by Paul Revere Life are set forth below for each indicated period:

	Year ended December 31,					Six months ended
	1962	1963	1964	1965	1966	June 30, 1967
Policies issued during period:						
Number	12,234	14,289	15,948	15,839	15,950	9,284
Average size	$8,756	$9,601	$10,126	$10,998	$12,219	$13,089
Policies in force at end of period:						
Number	164,223	168,160	172,707	176,445	179,869	182,366
Average size	$4,332	$4,634	$4,988	$5,362	$5,804	$6,057

Paul Revere Life makes no attempt to concentrate in any particular age group of insureds the insurance it writes, and it believes that the distribution of its life insurance in force by age of insured is close to the industry average.

Geographical Distribution of Business

As mentioned above, Paul Revere Life is licensed to write insurance throughout the United States and in all but two provinces of Canada. Its business is widely diversified geographically, with only seven states and Canada accounting individually for more than 4% of its total direct premiums received during 1966. The jurisdiction accounting for the largest percentage of such premiums was New York with 7.9%, and California and Canada followed with 6.5% and 5.5% respectively.

Expense Ratios for Life Insurance

The following table sets forth the ratios of commissions paid and other underwriting expenses incurred by Paul Revere Life to direct life insurance premiums received by class during the period since January 1, 1962:

	Year Ended December 31,					Six months ended
	1962	1963	1964	1965	1966	June 30, 1967
Individual:						
Commissions	11.5%	11.8%	12.4%	12.3%	12.5%	13.2%
Other expenses	19.7	17.1	18.0	16.3	15.4	16.4
Total	31.2%	28.9%	30.4%	28.6%	27.9%	29.6%
Group:						
Commissions	5.0%	4.2%	3.5%	3.1%	2.9%	*
Other expenses	28.8	17.0	16.9	16.6	16.5	*
Total	33.8%	21.2%	20.4%	19.7%	19.4%	*

* Certain industry program figures, such as those for the federal employees group life program, are significant and are only available at year-end.

Loss and Expense Ratios for Accident and Health Insurance

Shown in the following table are the ratio of losses incurred to accident and health premiums earned and the ratio of expenses to accident and health premiums received by class for the years 1962 through 1966 and the first six months of 1967:

	Year ended December 31,					Six months ended June 30, 1967(a)
	1962	1963	1964	1965	1966	
	(Stated in thousands of dollars)					
Individual Paul Revere Life:						
Premiums received	$24,168	$25,613	$27,006	$28,282	$29,901	$21,566
Premiums earned	22,893	24,324	25,643	26,878	28,398	20,965
Loss ratio to premiums earned	47.6%	48.1%	50.0%	49.1%	47.4%	48.6%
Expense ratio to premiums received	44.6%	44.3%	42.1%	43.9%	46.2%	42.2%
Combined loss and expense ratios(b)	92.2%	92.4%	92.1%	93.0%	93.6%	90.8%
Individual Paul Revere:						
Premiums received	12,260	12,163	12,017	11,906	11,629	—
Premiums earned	11,736	12,080	12,029	11,953	11,732	—
Loss ratio to premiums earned ...	50.3%	53.9%	52.2%	52.4%	53.0%	—
Expense ratio to premiums received	30.8%	27.8%	28.0%	29.5%	27.7%	—
Combined loss and expense ratios(b)	81.1%	81.7%	80.2%	81.9%	80.7%	—
Group:						
Premiums received	9,804	11,219	12,721	14,597	15,043	*
Premiums earned	9,872	11,265	12,875	14,594	14,908	*
Loss ratio to premiums earned	86.4%	85.9%	88.4%	87.9%	88.0%	*
Expense ratio to premiums received	14.6%	15.2%	14.1%	12.9%	12.8%	*
Combined loss and expense ratios(b)	101.0%	101.1%	102.5%	100.8%	100.8%	*

* Certain industry program figures, such as those for the federal employees group life program, are significant and are only available at year-end.

(a) Includes operations relating to the health insurance business transferred from Paul Revere to Paul Revere Life on January 1, 1967.

(b) Sum of preceding percentages.

Investments and Investment Results

For information as to the broad diversification of the investments of Paul Revere Life, reference is made to Paul Revere Life's balance sheets and Note 2 thereto. As of June 30, 1967, Paul Revere Life's $371,400,000 of cash and investments consisted of the following categories and approximate percentages: 3.0% in cash, 32.3% in bonds and notes, 23.7% in preferred and common stocks (including 1.3% in stocks of affiliates), 35.5% in mortgage loans, 2.6% in real estate (including 1.3% in home office properties) and 2.9% in policy loans.

The following table shows the results of investment operations of Paul Revere Life for the years 1962 through 1966 and the first six months of 1967 and of Paul Revere for that portion of such period during which it was directly engaged in the insurance business:

	Year ended December 31,					Six months ended June 30,
	1962	1963	1964	1965	1966	1967(a)
	(Stated in thousands of dollars)					
Paul Revere Life:						
Average cash and investments (b).	$227,127	$239,721	$265,679	$299,456	$328,575	$353,939
Net investment income (c)(d)	9,491	10,652	11,904	13,516	15,282	8,263
Percentage earned on total cash and investments (e)	4.24%	4.51%	4.55%	4.58%	4.72%	4.67%
Realized gain on investments (f) ..	822	40	3,714	5,948	5,553	10,158
Unrealized gain (loss) from investments (g)	(17,586)	5,765	1,119	12,050	(10,635)	5,311
Paul Revere:						
Average cash and investments (b).	110,837	107,893	118,748	133,162	141,199	
Net investment income (c)	3,328	3,478	3,534	4,079	4,458	
Percentage earned on total cash and investments (e)	3.04%	3.27%	3.01%	3.10%	3.21%	
Realized gain on investments (f) ..	1,064	1,252	7,379	5,388	5,188	
Unrealized gain (loss) from investments (g)	(24,419)	7,738	(1,962)	16,856	(11,440)	

(a) Includes assets and operations relating to the health insurance business transferred from Paul Revere to Paul Revere Life on January 1, 1967.

(b) Average of amounts at beginning and end of period using admitted asset values.

(c) Net after deduction of investment expenses but before realized gains and federal income taxes.

(d) Includes rental income for Paul Revere Life's occupancy of its own building in the respective amounts of $333,000, $346,000, $346,000, $348,000, $348,000 and $204,000 for the indicated periods.

(e) Calculated in accordance with rules prescribed by the National Association of Insurance Commissioners and, in the case of 1967, annualized for comparative purposes.

(f) Based on amortized value of bonds and cost of stocks before federal income taxes.

(g) Based on admitted asset values.

Reinsurance

As is customary among insurance companies, Paul Revere Life reinsures portions of certain of the life insurance policies it writes, as well as a very small amount of its group accident and health insurance, thereby providing it with a greater diversification of risk. The maximum amount of insurance that Paul Revere Life presently retains on any one life is generally $200,000, although the retention is less for substandard risks and for policyholders who are under 10 or over 60 years old.

Paul Revere Life has life reinsurance agreements with Connecticut General Life Insurance Company, The Lincoln National Life Insurance Company and North American Reassurance Company. Each of these agreements is on a yearly renewable term basis. The agreements with Connecticut General and Lincoln National provide for automatic acceptance by them of reinsurance in excess of Paul Revere Life's retention limits, up to a maximum of 1½ times the retained amount, while North American Reassurance provides reinsurance on a mutually agreed basis. Paul Revere Life remains contingently liable for the amount of insurance which it reinsures in the event the reinsuring companies are unable to satisfy their portion of any claims. The aggregate amount of life insurance reinsured as of June 30, 1967 was approximately $26,772,000, representing approximately 1.56% of the total life insurance in force on that date. The amount of accident and health premiums ceded in 1966 was less than .05% of the total received during that year.

Paul Revere Life also accepts reinsurance from other insurance companies. Such reinsurance, which consists of amounts attributable to Paul Revere Life's participation in industry group programs such as the federal employees group life program, aggregated approximately $206,448,000 as of December 31, 1966, accurate figures being available only at year-end.

Reserves

In accordance with the insurance laws and regulations under which Paul Revere Life operates, it is required to carry on its books as liabilities actuarial reserves to meet the obligations on its various life policies. These reserves are amounts which, together with additions from premiums to be received and interest on such reserves computed annually at certain rates, are calculated to be sufficient to meet Paul Revere Life's policy obligations at their maturities if deaths occur in accordance with the mortality tables employed. In addition, Paul Revere Life is required to establish reserves for its accident and health policies and securities valuation reserves. See Notes 1 and 4 to the financial statements of Paul Revere Life for further information as to these reserves and the mortality and disability tables used in their calculation.

Production of Business

Paul Revere Life operates its sales organization under a general agency system, but it also accepts business through brokers. The company currently maintains 95 general agency offices and 13 brokerage offices in the United States, with an agency force of approximately 90 general agents and agency managers, 960 special agents and 13 brokerage managers. In Canada, Paul Revere Life has a head office in Hamilton, Ontario, and operates its sales force out of ten branch offices having ten branch managers and approximately 90 special agents. Paul Revere Life also maintains a separate group sales organization, with nine group field offices staffed by 17 salaried group representatives.

The insurance agents, who are under exclusive contract with Paul Revere Life either directly or through the general agents, receive commissions which are higher in the first year of a policy life and lower in subsequent years.

Regulation

As is the case with other insurance companies, Paul Revere Life is subject to regulation and supervision by governmental agencies in each jurisdiction in which it is licensed to do business. These agencies have broad administrative powers relating to the granting and revocation of licenses to transact business, the licensing of agents, the approval of policy forms, the form and content of mandatory financial statements (see Note 1 to Paul Revere Life's financial statements), reserve requirements and the types of investments which may be made. Paul Revere Life is required to file a detailed annual report with each such supervisory agency, and its books and records are subject to examination at any time by them.

The Paul Revere Variable Annuity Insurance Company

The Paul Revere Variable Annuity Insurance Company, another wholly-owned Paul Revere subsidiary, was incorporated in Massachusetts on August 6, 1965, and on October 20, 1965 it received a Certificate of Authority from the Massachusetts Commissioner of Insurance authorizing it to engage in the business of selling variable annuity insurance contracts.

In December 1965, Paul Revere Variable established The Paul Revere Variable Annuity Contract Accumulation Fund and registered it as a diversified open-end investment company under the Investment Company Act of 1940. The Fund was formed to hold the assets set aside for all variable annuity contracts sold by Paul Revere Variable. These assets belong to Paul Revere Variable and are not trust funds, but are held for the exclusive benefit of the persons entitled to payments under the variable annuity contracts.

Paul Revere Variable sells both immediate and deferred individual variable annuity contracts and group variable annuity contracts designed to fund and provide benefits under pension and profit sharing plans, some of which will qualify for special tax treatment under the Internal Revenue Code of

1954. The company sold 35 variable annuity contracts privately to its officers on December 30, 1965 to provide the Fund with its required initial assets. It commenced selling contracts to the general public in mid-1966, selling 103 contracts in 1966 and 173 contracts in the first six months of 1967. As of June 30, 1967, Paul Revere Variable had outstanding 295 variable annuity contracts (with total reserves of $1,103,000) in the accumulation period and four contracts (with total reserves of $157,000) in the pay out period, while there were 135 contracts outstanding on December 31, 1966.

The terms of each of the company's variable annuity contracts provide that the contract values and dollar amounts of payment thereunder vary in accordance with the investment results of the Fund. The Fund's assets, which constitute the reserves for the variable benefits, are invested primarily in equity securities, but may also be invested in bonds, notes and other evidences of indebtedness permitted by the insurance laws of Massachusetts. The interests of annuitants in the Fund are designated in terms of accumulation units. The initial value of each unit other than those relating to tax qualified plans was set at $1.000000 as of December 30, 1965, and the values of such units were $1.034664 at June 30, 1966, $.970348 at December 31, 1966 and $1.113946 at June 30, 1967. No contracts covering tax qualified plans were written prior to July 1966, and the unit values for such plans were $.963780 at December 31, 1966 and $1.145317 at June 30, 1967.

Paul Revere Variable and its contracts are regulated by the insurance laws of Massachusetts and the other jurisdictions in which it does business, as well as by blue sky laws in Massachusetts and other states. The company is also subject to the Securities Exchange Act of 1934 and the Fund to the Investment Company Act of 1940, thereby causing each to be regulated by the Securities and Exchange Commission.

The company, which is presently licensed in 23 states and the District of Columbia, sells its individual and group variable annuity contracts through selected members of Paul Revere Life's agency and group field force and through qualified brokers.

Thompson Wire Division

The Thompson Wire Division resulted from the merger into Paul Revere in May 1967 of its wholly-owned subsidiary, Thompson Wire Company, a manufacturer of cold-rolled strip steel, spring steel and tempered steel and specialty steel wire. Thompson's cold-rolled products account for approximately 90% of its sales and its wire products for the balance.

Thompson is not a fully integrated steel company and, accordingly, purchases its raw materials from other companies. It converts these semi-finished materials into highly refined products used in making a great variety of end products, including office equipment, hardware, household utensils and tools, automotive parts, electronic and telephone equipment and a wide range of wire products.

Thompson serves 800 to 900 customers, no one of which accounts for more than 4% of sales, and its ten largest customers account for only about 20% of sales. There is vigorous competition in the specialized segment of the steel industry in which Thompson is engaged, primarily from divisions of much larger corporations.

Coastline Financial Corporation

Coastline Financial Corporation, a Delaware corporation which is wholly-owned by Paul Revere, has no business operations of its own but owns the subsidiaries described below. With the exception of $650,000 of preferred stock of Phelan Finance Corp., all of these subsidiaries are wholly-owned.

Ventura Savings and Loan Association

This subsidiary is a California corporation engaged in the business of lending money secured by first mortgages or deeds of trust to homeowners for the purpose of purchasing, constructing and improving real property or refinancing existing loans on real property. The company's loan funds are provided from its earnings and the savings of individuals, institutions and others, and its income is derived principally from interest and fees received in connection with such real estate loans.

Ventura is a member of the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank. Ventura's total assets exceeded $49,500,000 as of June 30, 1967 ($43,872,000 of which were mortgage loans), and it is located in Ventura County, approximately 65 miles north of Los Angeles.

Coastline Mortgage Corporation

This subsidiary is a California finance company also located in Ventura County, California, which provides funds to builders and developers secured by mortgages on the real property being developed or improved. It had total assets of $10,400,000 (of which $6,128,000 were mortgage loans) outstanding as of June 30, 1967.

Phelan Finance Corp.

Phelan Finance Corp. is a Georgia small loan company headquartered in Atlanta, which was acquired by Coastline Financial in June 1966. It operates through subsidiaries at 35 locations in the states of Georgia, Kentucky and Tennessee. The company has in excess of 33,500 accounts, with the bulk of its loans being between $200 and $600. As of June 30, 1967, Phelan had total outstanding receivables of approximately $15,365,000.

The Ontario Loan and Debenture Company

Paul Revere owns nearly 99% of the outstanding capital stock of this Ontario (Canada) subsidiary. In the scope of its operations, Ontario Loan and Debenture is similar to a United States savings and loan association or savings bank, although it combines some of the characteristics of a Canadian chartered commercial bank in that checking accounts may be provided. Its loan funds are derived from savings accounts, debentures maturing at various periods from one to five years and earnings. The company's resources are primarily invested in first mortgages, and its mortgage loans aggregated approximately $69,846,000 as of June 30, 1967. The company has its headquarters in London, Ontario, and is authorized to operate throughout Canada.

Peoples National Fund, Inc.

This Delaware subsidiary only recently became wholly-owned by Paul Revere. It is engaged exclusively in the home improvement financing business, purchasing notes arising from home improvements which are generally secured by mortgages on the residences involved. Most notes are for $3,000 or less when purchased, and their maximum term is for seven years. The company's headquarters are in New York City, and it does business in 30 states through 13 branch offices. Its receivables outstanding as of June 30, 1967, exceeded $54,431,000.

Vernors Inc.

Vernors Inc., a Delaware corporation approximately 54% of the outstanding stock of which is owned by Paul Revere, is an extract manufacturer, supplying Vernors extract to over 50 franchised bottlers throughout the United States. It also bottles this extract itself and is a franchised bottler for Royal Crown products in southern Michigan and northwest Ohio. Vernors extract is a secret soft drink formulation created in 1866 by James Vernor, the company's founder, which has its greatest consumer acceptance in Michigan.

Other Affiliated Companies

Other non-subsidiary companies in which Paul Revere has an equity interest of more than 25% include Avco Corporation, as mentioned above; Allied Innkeepers Limited, the Ontario (Canada) franchisee for Holiday Inns; Bradley and Vrooman Co., an Illinois corporation engaged in the business of manufacturing chemical container coatings; Continental Computer Associates, Inc., a Philadelphia-based computer leasing company; Credit Alliance Corp., a Delaware finance company headquartered in New York City which makes commercial equipment loans; and North American Incinerator Corp., a Massachusetts corporation engaged in the business of manufacturing and installing large commercial incinerators.

Plants and Properties

The principal office of Paul Revere, as well as that of The Paul Revere Life Insurance Company, The Paul Revere Variable Annuity Insurance Company and Coastline Financial Corporation, is the home office building owned by Paul Revere Life in downtown Worcester, Massachusetts. The building is a modern brick building of five floors having approximately 163,000 square feet of floor space, and construction of a new wing, having approximately 125,000 square feet of additional floor space, has commenced. This new addition is expected to be ready for occupancy late in 1968. Offices other than its home office needed by Paul Revere Life for its operations are leased, generally for periods of from 3 to 5 years.

The Thompson Wire Division maintains four manufacturing plants and two service centers located and described briefly as follows:

Location	Facility	Construction	Size (sq. ft.)
Boston, Mass.	Cold-rolled strip mill	Brick and steel	115,050
Franklin Park, Ill.	Cold-rolled strip mill	Brick and steel	253,300
Sparrows Point, Md.	Cold-rolled strip mill	Brick and steel	165,000
Worcester, Mass.	Wire drawing facility	Brick and steel	156,000
Roseville, Mich.	Service center	Cinder block	17,900
West Caldwell, N. J.	Service center	Cement block	21,200

All of the above properties are owned by the division, except for the West Caldwell service center which is held under a lease expiring on January 7, 1973.

Coastline Mortgage Corporation owns the building occupied by it and Ventura Savings and Loan Association in Ventura County, California, which is a modern concrete and glass office building constructed in 1963 containing approximately 20,000 square feet of floor space.

Phelan Finance Corp. rents its home office space in a downtown Atlanta, Georgia, office building, and its 35 branch offices occupy leased premises at separate urban and suburban locations in Georgia, Tennessee, and Kentucky.

The Ontario Loan and Debenture Company operates primarily from its home office, a building owned by it in downtown London, Ontario, in which the company occupies approximately half of the 21,000 square feet of floor area. Branch operations are carried on in five other Ontario cities in premises leased for various periods up to five years.

Peoples National Fund, Inc. leases the space required for its home office and 13 branch offices.

Vernors, Inc. owns two bottling plants located in Detroit, Michigan, and Toledo, Ohio, having an aggregate floor area of approximately 480,000 square feet. In addition, Vernors owns or leases warehouse facilities totaling approximately 46,000 square feet at seven Michigan locations.

Capital Stock

Paul Revere has only one authorized class of capital stock, which is designated common stock and has a par value of $5 per share. All of the outstanding common shares are validly issued, fully paid and non-assessable. The owners of such shares have full voting rights at meetings of Paul Revere's stockholders, but they have no guaranteed dividend rights nor any liquidation, conversion, redemption or preemptive rights.

HISTORY AND BUSINESS OF AVCO

General

Avco was organized as The Aviation Corporation under the laws of the State of Delaware on March 1, 1929. Its name was changed to Avco Manufacturing Corporation on March 26, 1947, and to Avco Corporation on April 10, 1959. Avco maintains its principal executive offices at 750 Third Avenue, New York, New York, but has announced plans to relocate these offices during 1968 to premises recently purchased in Greenwich, Connecticut.

During World War II, Avco and its subsidiaries and affiliates were one of the nation's major producers of defense materiel, principally aircraft and naval equipment. In the ten year period immediately following the war Avco was engaged chiefly in the production and sale of a wide range of consumer appliance goods and farm implements, but it continued to produce military and other equipment for the Government. Avco entered the radio and television broadcasting business in 1946 by means of its purchase of Crosley (now Avco) Broadcasting Corporation.

In 1956 Avco discontinued the major portion of its consumer goods business. Since that time most of Avco's plants and facilities have been devoted to research, development and production for government agencies through prime and subcontracts, principally in the fields of space flight technology, re-entry vehicles for intercontinental ballistic missiles, electronics, aircraft engines, airframe structures, ordnance items and missile components. Avco, however, has also had significant commercial operations for a number of years in the fields of aircraft engines and airframe components, in addition to its expanding interests in farm equipment and broadcasting.

In recent years Avco has widely expanded its commercial operations. The acquisition of Delta Acceptance Corporation Limited (now Avco Delta Corporation Canada Limited) in late 1964 gave Avco an important position in the financial services field which has continued to grow both internally and through additional finance company acquisitions. In 1965, Avco purchased Bay State Abrasive Products Company, a major grinding wheel producer which is now an Avco division. Since the summer of 1965, Avco Broadcasting Corporation has added a VHF television station and an AM radio station in San Antonio, Texas, and AM and FM radio stations in Washington, D. C., and San Francisco, California.

Sales and Backlog; Renegotiation

Avco's government and commercial sales for the five fiscal years ended November 30, 1966, and the six months ended May 31, 1966 and 1967, were as follows:

	Year ended November 30,					Six months ended May 31,	
	1962	1963	1964	1965	1966	1966	1967
	(Stated in thousands of dollars)						
Government:							
Research and development	$ 87,325	$114,166	$112,328	$ 80,069	$ 91,848	$ 31,009	$ 59,973
Aircraft engines and components; airframe components; ordnance; etc.	93,307	121,863	103,958	163,695	226,743	104,688	141,284
Electronics and missile components	108,978	155,999	94,904	59,575	79,732	34,853	27,663
	289,610	392,028	311,190	303,339	398,323	170,550	228,920
Commercial	124,670	122,104	119,886	139,856	205,896	95,365	98,151
Total	$414,280	$514,132	$431,076	$443,195	$604,219	$265,915	$327,071

Notwithstanding the continued high levels of government sales over the past few years, the proportion of Avco's net earnings contributed from commercial sources climbed from 40% in 1963 to 47% in 1964, 56% in 1965 and 64% in 1966. In the first six months of 1967, commercial operations provided 58% of the Company's net earnings.

Avco's backlog of all government orders and of commercial orders for aircraft engines and components and airframe components at the end of each of the past two fiscal years and at May 31, 1967, is set forth below. Sales of Avco's other commercial products and services are generally made on a spot, current or short-term basis, so that no significant backlog of unfilled orders for such products and services exists at any particular time. Included in the backlog of government orders are the extended amounts on letter contracts and other commitments, amounting to $78,327,000 at November 30, 1965, $90,702,000 at November 30, 1966, and $112,631,000 at May 31, 1967, for which definitive contracts had not been executed at such dates. Government contracts may be terminated at any time

upon a determination by the Government that such termination is in the best interests of the Government or in the event of a default by the contractor.

	November 30, 1965	November 30, 1966	May 31, 1967
	(Stated in thousands of dollars)		
Government:			
Research and development	$ 55,531	$112,439	$ 86,286
Aircraft engines and components; airframe components; ordnance; etc.	241,486	436,856	454,465
Electronics and missile components	76,047	162,176	178,488
	373,064	711,471	719,239
Commercial:			
Aircraft engines and components; airframe components	35,868	62,161	67,126
Total	$408,932	$773,632	$786,365

Profits under government contracts are subject to renegotiation by the Government according to applicable law. Avco has received clearance under the Renegotiation Act for 1965 and prior fiscal years, and it is not anticipated that any refund will be required for the 1966 fiscal year. Some government contracts contain provisions requiring that the prices paid by the Government thereunder be redetermined either upward or downward upon completion of the contract or an agreed portion thereof. In many cases such price revisions are made pursuant to incentive pricing provisions in the contract under which Avco and the Government share on an agreed basis in any upward or downward variation of the cost of performing the contract from an agreed target cost. In some cases incentives and penalties based upon Avco's performance are also included in the contract.

Research and Development

Avco is and has since 1955 been actively engaged in basic and applied scientific research in many areas, including missile and space technology, material sciences and magnetohydrodynamics. Present research activities in the missile and space field include general space flight technology, atmospheric entry and re-entry problems and the design and development of re-entry vehicles, strategic and tactical missile penetration aid technology, anti-missile defense systems, electrothermal and plasma deep space propulsion systems, sterilization methods for planetary probes and landers, advanced metallurgy, ceramics and plastics for high temperature applications, and high-strength filament composite materials for aircraft, missiles and space structures. Avco is also developing instruments to measure radiation levels in space, systems for guidance and control of space vehicles and plastic foams for meteoroid shields and expandable space structures.

Other research and development work, principally under government contracts, includes target decoys and discrimination studies for various ICBM programs and work on advanced radar, superconducting magnets, lasers, gas turbine engines, infra-red search and detection systems, space and tactical communications systems, telemetry equipment, fusing devices, cryogenic systems, ferrofluids, specialized laboratory equipment such as mass spectrometers, vacuum chambers, medical engineering projects and the synthesis of chemical products from coal by high temperature arc-discharge processes.

Most of Avco's advanced research and development activities are carried on by the Avco Everett Research Laboratory, the Avco Missile Systems Division and the Avco Space Systems Division, but each operating division of Avco carries on its own product research and development. More than 5,500 scientific, engineering and supporting personnel are now involved in these activities, and this staff is assisted by consulting scientists from university faculties and private laboratories.

Under research and development contracts with the Department of Defense, the Government usually obtains an irrevocable, non-exclusive, royalty-free license to practice or cause to be practiced by or for the Government throughout the world each invention conceived or first actually reduced to

practice in the performance of the experimental, developmental or research work called for by the contract, and in some cases it obtains exclusive property rights in such inventions. Under research and development contracts with some other governmental agencies, such as the National Aeronautics and Space Administration, such inventions made in the performance of the contract become exclusive government property unless the agency determines otherwise. The Government also customarily obtains unlimited rights to duplicate, use and disclose any data required to be delivered under research and development contracts.

Manufacturing Operations

Aircraft Engines and Components; Airframe Components

The Avco Lycoming Stratford Division produces the T-53 gas turbine engine for helicopters and fixed wing aircraft and the more powerful T-55 for helicopters. Avco Lycoming gas turbines are also being used in a number of developmental applications including turbo-prop aircraft, ground vehicles, and various marine and industrial applications. The Avco Lycoming Williamsport Division produces reciprocating engines for military and commercial aircraft and helicopters, as well as precision metal and machined parts for the aircraft industry. Other Avco Lycoming products include mechanical constant speed drives for aircraft accessories, aircraft mechanical controls, landing gears and engine components. The Avco Aerostructures Division produces major aircraft components for both military and commercial aircraft, including tail and/or wing assemblies for the C-130, C-141 and C-5A military transports and the Grumman Gulfstream II, as well as assemblies for Bell helicopters. It has also been selected as a major subcontractor for the new supersonic jet transport.

Electronics and Missile Components

In the field of electronics, Avco produces for the Government tactical communications and other space and defense systems. These products, together with commercial intercom units manufactured for sale by others and missile components, are produced by the Avco Electronics Division, which also has a full service department that can provide technical services on a world-wide basis to install, maintain and support military and industrial electronic and other equipment. The Avco Lycoming Stratford Division is producing complex re-entry vehicles and related ground support equipment for intercontinental ballistic missiles, rocket chambers for ballistic missiles and other missile components, and the Avco Space Systems Division is building heat shields for the Apollo space program.

Ordnance

The Avco Ordnance Division is engaged in research, development, production engineering and production of classified ordnance items including special non-nuclear ammunition and ordnance, anti-materiel and anti-personnel weapons, missile and rocket arming and fuzing systems, missile, mine, mortar and artillery warheads, air launch weapons, special weapons for limited warfare, rocket-boosted ammunition and other tactical weapons systems.

Farm Equipment

The Avco New Idea Division manufactures specialized farm equipment such as manure spreaders, corn pickers, snappers and shellers, hay conditioners, mowers, rakes, rotary cutters, dry chemical fertilizer spreaders, hydraulic loaders for farm and utility type tractors, farm wagons, bunk feeders, mechanized barn-cleaners, silo unloaders, and the Uni-System line of interchangeable, self-propelled harvesting equipment. These products are distributed primarily by the Avco New Idea Farm Equipment Division of Avco Distributing Corporation, a wholly-owned Avco subsidiary, to approximately 2,400 dealers who sell them throughout the United States and in Canada.

Abrasive Products

The Avco Bay State Abrasives Division produces a complete line of grinding wheels and bonded abrasive products, including vitrified and resinoid bonded wheels and stones, diamond grinding wheels, cutting tools and related products. A manufacturing subsidiary in Brantford, Ontario, supplies the

Canadian market, and another subsidiary, Felker Manufacturing Co. of Torrance, California, produces wheels and machines for the masonry, concrete, stone and construction fields.

Consumer Products

The Avco Aerostructures Division is producing metal office furniture under contract for another manufacturer, and Avco also manufactures household and commercial boilers and heaters at its Lycoming Williamsport Division.

Moffats, Limited, a wholly-owned Canadian subsidiary, manufactures and sells commercial and domestic gas and electric ranges, electric range heating elements and gas-fired furnaces. It also manufactures household laundry equipment under license from a major United States appliance manufacturer and sells this equipment in Canada under various trade names. This subsidiary purchases for resale, under its own trade names, refrigerators, gas-fired water heaters, industrial gas heating equipment and commercial gas cooking equipment. The products of Moffats, Limited are sold by approximately 2,000 dealers throughout Canada.

International Operations

Licenses have been granted by Avco covering the manufacture and sale by foreign licensees of a variety of products, including Avco Lycoming gas turbine and reciprocating engines, Avco New Idea farm equipment and Moffats household ranges and other equipment. Through a manufacturing subsidiary located in Steinsel, Luxembourg, the Avco Bay State Abrasives Division is serving the European market with a full line of bonded abrasive products. Additional operations carried on by Avco in Canada are described above.

Broadcasting

Avco's wholly-owned subsidiary, Avco Broadcasting Corporation, owns and operates three AM radio stations, WLW in Cincinnati, Ohio, WWDC in Washington, D.C., and WOAI in San Antonio, Texas; one FM radio station, WWDC-FM in Washington, D.C.; and five very high frequency (VHF) television stations, WLW-T in Cincinnati, Ohio, WLW-D in Dayton, Ohio, WLW-C in Columbus, Ohio, WLW-I in Indianapolis, Indiana, and WOAI-TV in San Antonio, Texas. Through a wholly-owned California subsidiary, Avco Broadcasting also owns and operates AM radio station KYA and FM radio station KOIT in San Francisco.

Avco Broadcasting's radio and television broadcasting operations are subject to the jurisdiction of the Federal Communications Commission, as provided in the Federal Communications Act of 1934. This Act authorizes the Commission to grant radio and television broadcasting licenses upon determination that the "public convenience, interest or necessity" will be served thereby. Under the present rules of the Commission, no company may own or control licenses for more than seven AM radio stations, seven FM radio stations, and seven television broadcasting stations, of which no more than five may be VHF. The maximum term for which a broadcasting license may be granted is three years, with renewals for periods of not more than three years each upon considerations similar to those governing the granting of the original license. Avco's broadcasting licenses presently expire on various dates to October 1, 1970.

Broadcast Communications Group, Inc., a wholly-owned Avco Broadcasting subsidiary, is the national sales representative for Avco's radio and television stations as well as for other independently owned, non-competitive broadcasting stations. BCG maintains its headquarters and marketing and research offices in New York City, and it operates separate radio and television sales divisions which sell advertising on the represented stations throughout the United States.

Community Antenna Television

Meredith-Avco, Inc., a community antenna television (CATV) company owned equally by Avco and Meredith Publishing Company, now operates ten CATV systems with almost 20,000 subscribers

in six southeastern states. Meredith-Avco also has a 50% interest in Florida TV Cable, Inc., which operates two systems in Florida having nearly 15,000 subscribers.

The CATV business is a rapidly expanding and changing one with many competitors in the field, and substantial questions concerning regulation of such business and the application to it of the federal copyright laws are under consideration by the courts and the United States Congress. Avco does not believe that such regulatory and legal matters constitute any immediate threat to Meredith-Avco's CATV operations, but future changes in such operations may be required.

Socio-Economic Systems

Economic Systems Corporation, another wholly-owned Avco subsidiary, operates two residential Job Corps centers for women under contracts with the Office of Economic Opportunity. The first of these centers is the largest in the nation and is located at Poland Spring, Maine. The second center was recently established at the former Larson Air Force Base at Moses Lake, Washington. These two sites will accommodate annually over 1,600 young women from culturally and economically deprived backgrounds who will be trained in employable job skills and family living. This subsidiary is also applying systems analysis to the assessment of the country's future water requirements and the development of plans to meet those future needs.

Financial Services

General

Avco Delta Corporation is a wholly-owned subsidiary of Avco which acquired control of Avco Delta Corporation Canada Limited (formerly Delta Acceptance Corporation Limited), an Ontario (Canada) corporation, in December 1964 through a capital contribution from Avco. Avco Delta presently owns approximately 98% of the outstanding voting shares of Avco Delta Canada, which was at the time of its acquisition by Avco Delta engaged in the finance business throughout Canada and, through subsidiaries, in various states of the United States. The business activities of Avco Delta and its subsidiaries are presently being conducted through eight major divisions as outlined below having approximately 450 offices in 22 states of the United States and in all ten Canadian provinces.

Divisions

Avco Delta's Canadian and United States Loan Divisions specialize in making consumer loans, but they also operate in the sales finance field by purchasing from dealers retail installment sales obligations covering appliances and other consumer goods. The Canadian-based Automotive Division acquires retail installment sales contracts covering primarily automobiles (both new and used) and makes wholesale advances and direct loans to dealers. The Capital Equipment Division provides financing in Canada for industrial and commercial accounts covering a broad range of revenue-producing machinery and equipment.

The Industrial Bank and Thrift Division includes eight industrial banks in Colorado and a California industrial loan company. Industrial banks are empowered to accept savings and time deposits, make loans, purchase sales finance contracts and provide customers with all other banking facilities except checking and trust services, and industrial loan companies have similar deposit and loan powers. The Home Improvement Division acquires installment obligations and/or notes covering the time purchase of home improvements, and it also discounts and makes secured loans to home owners.

The Farm Equipment Division acquires retail installment sales contracts from Avco New Idea dealers covering the purchase of farm equipment manufactured both by Avco and by other manufacturers. In addition, this division purchases wholesale receivables arising from sales of farm equipment to its dealers by the Avco New Idea Farm Equipment Division. The Insurance Division consists of two Canadian general insurance companies licensed to write all forms of insurance other than life and two credit life and disability insurance companies and four insurance agencies operating in the United States.

Volume of Receivables

The following table shows the volume of receivables acquired by Avco Delta and its predecessor, Avco Delta Canada, by class during each of the periods indicated:

	Avco Delta Corporation Canada Limited			Avco Delta Corporation		
	Year ended December 31,		Eleven months ended November 30,	Year ended November 30,		Six months ended May 31,
	1962	1963	1964	1965	1966	1967
	(Stated in thousands of dollars)					
Retail installment sales contracts —						
New automobiles	$ 16,817	$ 22,269	$ 31,056	$ 29,124	$ 28,095	$ 12,234
Used automobiles	17,437	20,399	22,117	19,396	20,772	6,158
Commercial vehicles	2,997	2,982	3,126	2,844	5,236	2,538
Mobile homes	4,298	2,806	2,222	2,449	3,800	2,174
Capital equipment(1)	9,420	15,540	16,790	25,749	23,991	13,580
Home improvement(2)	9,973	20,472	38,860	55,724	53,178	29,937
Farm equipment	—	—	—	—	10,192	9,965
Misc. sales finance contracts(1)(3)	2,202	4,614	10,807	25,726	42,090	27,045
Other	1,434	3,811	5,296	5,502	7,932	2,018
Total	64,578	92,893	130,274	166,514	195,286	105,649
Consumer loans (excluding accrued interest) —						
Automobiles	3,130	4,579	4,545	7,867	10,745	5,560
Household goods	26,464	43,759	51,816	76,716	117,924	61,979
Household goods and automobiles	21,594	33,539	38,015	52,144	61,892	39,361
Other (including unsecured)	2,528	5,677	7,436	16,779	34,795	18,834
Total	53,716	87,554	101,812	153,506	225,356	125,734
Wholesale advances (excluding accrued interest) —						
New automobiles	26,992	32,181	34,261	44,164	49,033	25,711
Used automobiles	6,331	5,724	2,858	2,176	2,082	1,181
Mobile homes	2,978	3,413	1,624	1,726	2,135	1,409
Farm equipment	—	—	—	—	35,017	15,424
Other	649	1,545	1,780	3,434	5,334	2,100
Total	36,950	42,863	40,523	51,500	93,601	45,825
Capital loans to dealers (excluding accrued interest)	1,607	1,207	906	812	212	134
Total volume (excluding accrued interest)	156,851	224,517	273,515	372,332	514,455	277,342
Receivables acquired through purchase of subsidiaries	—	12,822	—	34,385	9,740	—
Grand total (excluding accrued interest)	$156,851	$237,339	$273,515	$406,717	$524,195	$277,342

(1) Includes an immaterial amount of direct loans.

(2) Includes direct loans secured by real property: $11,671,000 in 1966 and $7,317,000 in 1967. (Amounts for prior periods are not available.)

(3) Conditional sale agreements, covering primarily household goods, acquired by divisions specializing in consumer loans.

Receivables Outstanding

The following table shows the amount of receivables of Avco Delta and its predecessor, Avco Delta Canada, outstanding by class as of each of the dates indicated:

	Avco Delta Corporation Canada Limited			Avco Delta Corporation		
	December 31,		November 30,	November 30,		May 31,
	1962	1963	1964	1965	1966	1967
	(Stated in thousands of dollars)					
Retail installment sales contracts —						
New automobiles	$ 14,438	$ 21,262	$ 30,220	$ 34,712	$ 32,811	$ 30,441
Used automobiles	12,282	15,364	18,947	18,902	18,773	13,076
Commercial vehicles	2,485	2,694	3,232	5,343	5,577	5,631
Mobile homes	6,401	4,965	4,027	4,107	5,227	5,948
Capital equipment(1)	7,394	13,859	17,970	24,877	31,109	32,522
Home improvement(2)	10,972	25,279	51,255	82,968	100,645	108,589
Farm equipment	—	—	—	—	9,321	14,907
Misc. sales finance contracts(1)(3)	1,810	3,353	7,484	20,721	30,768	37,268
Other	3,147	4,859	5,191	2,793	3,209	3,452
Total	58,929	91,635	138,326	194,423	237,440	251,834
Consumer loans (excluding accrued interest) —						
Automobiles	*	*	3,441	6,444	8,039	8,366
Household goods	*	*	39,110	58,480	85,388	91,757
Household goods and automobiles	*	*	33,609	54,396	53,690	63,543
Other (including unsecured)	*	*	3,901	13,134	31,993	32,708
Total	38,137	63,206	80,061	132,454	179,110	196,374
Wholesale advances (excluding accrued interest) —						
New automobiles	4,398	4,683	4,848	6,989	6,898	7,259
Used automobiles	1,009	607	570	607	279	293
Mobile homes	689	599	478	556	503	737
Farm equipment	—	—	—	—	21,198	31,398
Other	264	262	946	1,034	1,272	770
Total	6,360	6,151	6,842	9,186	30,150	40,457
Capital loans to dealers (excluding accrued interest)	2,186	2,124	1,761	1,737	1,290	1,038
Total receivables (excluding accrued interest)	105,612	163,116	226,990	337,800	447,990	489,703
Accrued interest	268	352	495	808	940	964
Grand total	$105,880	$163,468	$227,485	$338,608	$448,930	$490,667

(1) Includes an immaterial amount of direct loans.

(2) Includes direct loans secured by real property: $20,133,000 at November 30, 1966 and $24,985,000 at May 31, 1967. (Amounts for prior periods are not available.)

(3) Conditional sale agreements, covering primarily household goods, acquired by divisions specializing in consumer loans.

* Breakdown not available.

Credit and Delinquency Experience

Avco Delta and its predecessor, Avco Delta Canada, have enjoyed favorable credit experience throughout their combined history. The following table sets forth information concerning the allowance for losses and the ratio of such allowance to receivables at the end of each of the periods indicated, losses (less recoveries) and the ratio of such losses to liquidations during the periods, and the delinquency of various classes of receivables at the end of each period:

	Avco Delta Corporation Canada Limited			Avco Delta Corporation		
	Year ended December 31,		Eleven months ended November 30,	Year ended November 30,		Six months ended May 31,
	1962	1963	1964	1965	1966	1967
	(Stated in thousands of dollars)					
Total receivables at end of period	$105,880	$163,468	$227,485	$338,608	$427,731*	$459,308*
Allowance for losses at end of period	1,604	2,608	3,574	5,735	7,574	8,463
Ratio of allowance for losses to receivables	1.51%	1.60%	1.57%	1.69%	1.77%	1.84%
Liquidations (excluding wholesale) during period	$ 88,643	$135,437	$169,626	$246,464	$340,896	$200,112
Losses on receivables (including wholesale) less recoveries during period	1,241	1,395	2,515	3,741	4,736	2,608
Ratio of net losses to liquidations	1.40%	1.03%	1.48%	1.52%	1.39%	1.30%
Delinquent accounts at end of period:						
Retail installment sales contracts — 60 days and over	$ 369	$ 912	$ 1,999	$ 3,073	$ 4,131	$ 4,660
Ratio to relevant receivables	.63%	1.00%	1.45%	1.58%	1.74%	1.84%
Small consumer loans —						
— 90 days and over	$ 105	$ 220	$ 527	$ 851	$ 919	$ 1,008
— 60-89 days	87	174	477	703	644	656
— interest only	131	193	324	366	385	449
— total small loans	$ 323	$ 587	$ 1,328	$ 1,920	$ 1,948	$ 2,113
Ratio of total to relevant receivables	1.39%	1.66%	3.12%	2.66%	2.27%	2.37%
Large consumer loans — 60 days and over	$ 198	$ 438	$ 473	$ 830	$ 1,607	$ 2,371
Ratio to relevant receivables	1.31%	1.56%	1.26%	1.38%	1.73%	2.20%

* Excludes wholesale receivables acquired by the Farm Equipment Division from the Avco New Idea Farm Equipment Division of Avco Distributing Corporation: $21,198,000 at November 30, 1966 and $31,358,000 at May 31, 1967.

Sources of Funds Employed

Avco Delta's operations are financed from its capital stock, earnings, unsecured short term borrowings under lines of credit with commercial banks, unsecured short term commercial paper borrowings, unsecured long term borrowings from various institutional investors, savings deposits and debentures and thrift certificate investments. Avco assists Avco Delta in arranging and obtaining outside financing.

The cost of Avco Delta's short term debt is closely related to the prime rate of interest and is, therefore, directly affected by changes in such rate. From 1960 to December 1965, the prime interest rate was 4½% per annum, but it was increased to 5% in that month, 5½% in March 1966, 5¾% in July 1966 and 6% in August 1966. In January 1967, the prime rate dropped to 5¾% at most banks, and in March 1967 it was reduced to 5½% per annum. The prime rate also has an effect on the interest rates paid by Avco Delta on its long term debt. Avco Delta's estimated average annual cost of borrowed funds, without giving effect to compensating bank balances, for each of the fiscal years 1965 and 1966 and for the first six months of fiscal 1967 was 5.2%, 5.7% and 5.7%, respectively.

Competitive Conditions

In the sale of its products and services, both to the Government and commercially, Avco is subject to keen competition. Much of Avco's research and development activity is in specialized areas of possible future potential rather than present markets, and, in many instances, continued expenditure of substantial funds will be required to bring the projects to completion. Avco's defense and space business is necessarily affected by many factors not within its control, including variations in the military requirements of the Government, defense and space budget limitations, obsolescence of military and space devices and weapons systems, and rapid advances made in scientific and technical phases of defense products.

The business carried on by Avco Delta and its subsidiaries is also in highly competitive fields. In addition to the competition offered by independent finance companies and commercial banks, competition exists with finance companies affiliated with the manufacturers of the articles being financed, industrial banks and loan companies, commercial and industrial credit unions, mutual or cooperative associations and other financial organizations. Avco Delta's finance operations are also subject to strict regulation under "small loan" and other regulatory legislation.

Employee Relations

Avco and its subsidiaries presently employ approximately 38,000 persons. The conditions of employment of all but a relatively small percentage of hourly-paid employees are governed by labor contracts with numerous different unions having various expiration dates. Only a small percentage of salaried employees is unionized. Avco has had periodic work stoppages at certain of its divisions (the most recent being a strike at its Lycoming Stratford Division which was settled in late June 1967 after having been enjoined under the provisions of the Taft-Hartley Act), but its labor relations have generally been good.

Avco and its domestic subsidiaries have in effect a contributory pension plan available for the benefit of all salaried employees who have a base salary of $3,000 or more and two years of continuous service. Avco Delta Canada also has a contributory retirement plan for salaried employees, and noncontributory pensions are provided under substantially all of Avco's labor contracts for the hourly-rated employees covered thereby. Group insurance plans are in effect which provide life insurance and sickness, accident, hospital and surgical benefits for employees and dependents.

Plants and Properties

The principal plants and properties operated by Avco and its subsidiaries are described below. All of such plants and properties are owned in fee except as otherwise stated. Material portions of the machinery and equipment used by Avco in the performance of its government contracts, as well as the Stratford, Connecticut, plant of the Avco Lycoming Division described below, are owned by the Government. They are provided to Avco pursuant to facilities contracts which authorize Avco to use them without charge in the performance of specified government supply contracts. In addition, their use is permitted in the performance of other government contracts, generally without charge, provided prior governmental approval is obtained, and, under certain circumstances, in the performance of commercial work if governmental approval is obtained and appropriate rentals are paid to the Government. These facilities contracts are terminable by the Government at any time, but Avco does not anticipate that any such termination will occur so long as the facilities are required in the performance of government contracts.

Avco Everett Research Laboratory

The Avco Everett Research Laboratory is located at Everett, Massachusetts, in leased premises having approximately 200,000 square feet. The Laboratory also owns 61 acres of land in Haverhill,

Massachusetts, on which it has erected a building of approximately 11,200 square feet to house MHD experimental apparatus and office and shop facilities.

Avco Missile Systems Division

The headquarters of this division are located in Wilmington, Massachusetts. This facility, comprising approximately 637,000 square feet of floor area in five main buildings on an 80-acre site, houses administrative, research, engineering and prototype manufacturing activities, with additional special purpose buildings housing facilities such as ballistic ranges and arc-heated wind tunnels. The division also occupies 128,000 square feet of leased space in North Wilmington and Lawrence, Massachusetts. Outdoor antenna and electronics test facilities are in operation on 50 acres of leased land in Wilmington and 126 acres recently purchased in Dracut, Massachusetts. Field test operations utilize an aggregate of approximately 47,000 square feet of floor space furnished by the Government at several locations.

Avco Space Systems Division

This division occupies a complex of four main buildings containing approximately 402,000 square feet of floor area on a 27-acre site in Lowell, Massachusetts. Approximately 85,000 square feet of the Wilmington headquarters of the Avco Missile Systems Division are occupied by this division, and it leases 30,000 square feet of warehouse space adjacent to its main plant in Lowell.

Avco Lycoming Stratford Division

The Government-owned plant used and occupied by this division at Stratford, Connecticut, contains approximately 1,500,000 square feet of floor space. In mid-1966, a new 400,000 square foot facility was completed and occupied by the division at Charleston, South Carolina.

Avco Lycoming Williamsport Division

This division's plants at Williamsport, Pennsylvania, have approximately 864,000 square feet of floor space.

Avco Aerostructures Division

The plant of this division at Nashville, Tennessee, has approximately 1,560,000 square feet of floor space.

Avco Electronics Division

This division owns a plant in Evendale, Ohio, having approximately 400,000 square feet of floor space and laboratory facilities in Tulsa, Oklahoma, having approximately 62,000 square feet on a 25-acre site. Additional space aggregating approximately 94,000 square feet is leased by the division at various locations for its operations.

Avco Ordnance Division

This division owns a plant at Richmond, Indiana, having approximately 930,000 square feet of floor space, and a test firing range at Connersville, Indiana.

Avco New Idea Division

The plants of this division are at Coldwater, Ohio (approximately 1,200,000 square feet of floor area, with 294,000 additional feet under construction), and Fort Dodge, Iowa (approximately 207,000 square feet). Avco Distributing Corporation has branch sales and credit offices and warehouses at ten locations, most of which are leased.

Avco Bay State Abrasives Division

This division's headquarters are located at Westboro, Massachusetts, and comprise approximately 670,000 square feet of floor area. Branch sales offices and warehouses, totalling approximately 105,000 square feet of floor space, are located at Chicago, Detroit, Cleveland, Pittsburgh, Houston and Los Angeles. Plants of subsidiaries in Brantford, Ontario, Steinsel, Luxembourg, and Torrance, California, have approximately 37,000, 40,000 and 41,000 square feet of floor area, respectively.

Moffats, Limited

The plants of this subsidiary are at Weston, Ontario (approximately 485,000 square feet of floor area) and Orillia, Ontario (approximately 60,000 square feet).

Avco Broadcasting Corporation

This subsidiary owns tracts of land in or near Cincinnati, Dayton and Columbus, Ohio, Indianapolis, Indiana, Silver Spring, Maryland, and San Antonio, Texas, on which are situated buildings housing studios, transmitting equipment and signal-radiating towers for its radio and television stations. It leases additional space for broadcasting studios and offices in Cincinnati and Indianapolis, and property near San Antonio for transmitting equipment and towers. Its California subsidiary leases the properties it occupies in San Francisco for offices, studios and transmitting equipment and towers. Broadcast Communications Group leases office space for its operations in New York, Chicago, Detroit, Cleveland, San Francisco, Los Angeles and Dallas.

Economic Systems Corporation

This subsidiary's Poland Spring facility is a former resort of 52 acres which includes 20 buildings having approximately 500,000 square feet of space. The facility at Moses Lake consists of approximately 400,000 square feet of floor space located on 90 acres. Each of these facilities is leased.

Avco Delta Corporation

Aside from a very few office locations which are owned in fee, the real properties occupied by Avco Delta and its subsidiaries are occupied under leases for varying terms to provide space for the various supervisory and branch offices and related service functions. Avco Delta's principal executive offices are located at New York City, but certain of its subsidiaries have supervisory offices in London, Ontario (Canada), Omaha, Nebraska, Denver, Colorado, Warrensville Heights, Ohio, San Mateo, California, and Coldwater, Ohio. In the near future, Avco Delta plans to centralize most of the supervisory functions presently being performed at each of these locations (other than Denver and San Mateo) by moving them to new leased premises in Shaker Heights, Ohio.

Capital Stock

Common Stock

Avco's common stock, which has a par value of $3 per share, has voting rights, one vote per share. Such stock does not carry any preemptive, subscription or conversion rights and is not subject to redemption. All of the outstanding shares of common stock are validly issued, fully paid and nonassessable, and all additional common shares issued pursuant to the exchange offers described

above will when issued be validly issued, fully paid and non-assessable. The holders of common stock are entitled to receive such dividends as may be declared by Avco's Board of Directors out of earnings lawfully available therefor after payment of dividends and required sinking or purchase fund amounts on Avco's preferred stock. No common shares may be purchased or redeemed by Avco unless all dividends and other required payments on the preferred shares have been paid or provided for. In the event of any liquidation of Avco, the holders of common stock have the right to receive all assets available for distribution after settlement of prior claims, in accordance with their respective holdings.

$4.50 Preferred Stock

Avco's $4.50 cumulative convertible preferred stock, as its designation indicates, is entitled to receive cumulative annual dividends of $4.50 per share. All of the outstanding shares of this series are validly issued, fully paid and non-assessable, and each is convertible at any time into shares of Avco's common stock at a conversion price of $28.20 per share, the preferred stock being valued for this purpose at $100 per share.

The $4.50 preferred stock, which is without par value, is not redeemable prior to September 1, 1970. From and after that date, it may be redeemed at an initial redemption price of $104.50 per share (plus accumulated dividends), such price declining by 50¢ for each subsequent 12-month period until reaching $100 per share. After settlement of prior claims, the holders of the $4.50 preferred stock are entitled to receive amounts equal to the redemption prices specified above in the event of any voluntary liquidation of Avco, and $100 per share (plus accumulated dividends) in the event Avco is involuntarily liquidated. Commencing in 1971, Avco is obligated to set aside an annual purchase fund not exceeding $105,000 for these preferred shares.

All preferred stock of Avco has voting rights of one vote per share, but if Avco is in arrears in the payment of preferred dividends in an amount equivalent to one and one-half times the annual dividends on all shares of preferred stock at the time outstanding, the holders of such stock, voting separately as a class, are entitled to elect two directors. As noted above, one of the amendments to Avco's Certificate of Incorporation being presented to the special meeting expressly provides that these class voting rights are in addition to and not in lieu of the normal voting rights held by Avco's preferred stock.

The $4.50 preferred stock does not carry any preemptive or subscription rights.

The rights of the holders of any series of Avco's preferred stock cannot be amended or changed in any material prejudicial respect without the approval of at least two-thirds of the outstanding shares of that series, but no such class vote is required in connection with any proposed increase in the total number of authorized shares of common or preferred stock of Avco, such as is being presented to the special meeting.

Proposed $3.20 Preferred Stock

The shares of $3.20 cumulative convertible preferred stock which Avco proposes to issue pursuant to the two exchange offers described above will have voting rights as set forth above and will be entitled to receive cumulative annual dividends of $3.20 per share. When issued, these shares will be validly issued, fully paid and non-assessable.

The $3.20 preferred stock will have a stated value of $6 per share, and each such share will be convertible at any time into two shares of Avco's common stock (subject to appropriate dilution provisions). These preferred shares will not be redeemable for five years. In the sixth year the redemption price will be $100 per share (plus accumulated dividends), and such price will decline by $2 for each subsequent year until reaching $80 per share.

In the event of any voluntary or involuntary liquidation of Avco, the holders of shares of this series will be entitled to receive $40 per share (plus accumulated dividends), after settlement of prior claims. If the assets available for distribution on liquidation are insufficient to permit full payment of all amounts due on the preferred shares of all series at the time outstanding, Avco's charter provides that payment is to be made on account of such shares ratably according to the total amounts which they are entitled to receive.

The $3.20 preferred stock will not carry any preemptive or subscription rights, and no sinking or purchase fund will be provided for this series.

Dividend Restrictions, etc.

Pursuant to Note Agreements with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, dated October 11, 1965, Avco has covenanted that it will not pay or declare any dividend (other than a stock dividend) on, or make any other distribution on account of, or purchase or otherwise acquire or retire, directly or indirectly, any shares of its capital stock (other than dividends and mandatory sinking or purchase fund payments on the $4.50 preferred stock and, for a two year period, on 165,000 additional shares of preferred stock) unless, immediately after giving effect thereto, Consolidated Net Earnings Available for Restricted Payments (as defined) shall not be less than $1 and Consolidated Net Current Assets (as defined) shall not be less than $110,000,000. Exchanges of stock of one or more classes are excepted from the foregoing restrictions.

The term "Consolidated Net Earnings Available for Restricted Payments" means, in general, an amount equal to $20,000,000 plus all of the consolidated net earnings of Avco and its Restricted Subsidiaries (as defined) after November 30, 1964, less the sum of (*i*) all dividends (other than stock dividends) and other distributions paid or declared or made after November 30, 1964 on any class of Avco's stock, (*ii*) the excess, if any, of the aggregate amount expended after November 30, 1964 for the retirement or acquisition of any shares of Avco's stock, over the aggregate net proceeds received after such date from the issuance of such stock, (*iii*) certain restricted investments made or acquired after September 30, 1965, and (*iv*) certain acquisitions of convertible subordinated funded debt after November 30, 1964. The term "Consolidated Net Current Assets" means, in general, the amount by which the consolidated current assets (which are defined to exclude, among other things, certain foreign assets) of Avco and its Restricted Subsidiaries exceed their consolidated current liabilities (which are defined to exclude, among other things, notes payable to banks under certain revolving credit agreements). The term "Restricted Subsidiaries" basically includes Avco's domestic non-finance company subsidiaries, but Avco plans to classify Paul Revere and all of its subsidiaries as unrestricted subsidiaries for purposes of the insurance company agreements if its exchange offer to the Paul Revere shareholders becomes effective as specified above.

As of May 31, 1967, approximately $41,850,000 of Avco's retained earnings ($37,250,000 at November 30, 1966) were not restricted under the insurance company agreements as to the payment of cash dividends on its capital stock.

Similar restrictions on the declaration or payment or making of dividends and other distributions on Avco's capital stock and the purchase or other acquisition of such stock are contained in Avco's Revolving Credit Agreement, dated April 10, 1953, as amended, with a group of 16 banks and in the Indenture, dated February 1, 1959, pursuant to which Avco's 5% convertible subordinated debentures are outstanding. The amount of Avco's retained earnings as of May 31, 1967, however, which was not restricted under these provisions was greater than the amount not restricted for such purposes under the insurance company agreements.

Share Ownership

As mentioned above, The Paul Revere Corporation and its subsidiaries own beneficially and of record 4,012,500 shares (approximately 28%) of Avco's outstanding common stock. Leslie Katz of Brooklyn, New York, Richard Katz of New York, New York, and Ruth K. Strouse of Pikesville, Maryland, each owns beneficially and of record 10,878 shares (approximately 31%) of the outstanding $4.50 preferred stock of Avco referred to above. As of July 15, 1967, Avco's officers and directors as a group beneficially owned, directly or indirectly, 302,115 shares (approximately 2.14%) of its outstanding common stock, $3,000 aggregate principal amount (approximately .19%) of its outstanding 5% convertible subordinated debentures, 268 shares (approximately .01% of the outstanding common stock of Paul Revere, 200 shares (approximately .08%) of the outstanding capital stock of The Ontario Loan and Debenture Company, and 670 Series D first preference shares (approximately 1.5% of such shares outstanding) of Avco Delta Corporation Canada Limited.

Management

Directors

The present directors of Avco, each of whom was elected at the 1967 Annual Meeting to hold office until the next annual meeting, are listed below. See the caption "Future Operations and Management" above for information as to additional directors who are expected to be elected to Avco's Board of Directors after consummation of the Paul Revere exchange.

Name	Principal occupation	Year first elected director	Common stock of Avco beneficially owned as of July 15, 1967
George E. Allen(1)	Attorney at law, Washington, D. C.	1943	2,840
Earl H. Blaik(1)	Chairman of the Executive Committee, Avco Corporation, New York, N. Y.	1959	23,500
James Bruce (1)	Director, several corporations.	1950	3,000
John R. Gosnell(1)(2)	Executive Vice President and Director, The Paul Revere Corporation, and Vice President and Director, The Paul Revere Life Insurance Company, Worcester, Mass.	1964	35,674(3)
Frederick W. P. Jones	Professor, School of Business Administration, The University of Western Ontario, London, Canada.	1964	3,000
Herman H. Kahn	Partner, Lehman Brothers, New York, N. Y., Investment Bankers.	1955	5,384(3)
Arthur R. Kantrowitz	Vice President, Avco Corporation, New York, N. Y., and Director of the Avco Everett Research Laboratory, Everett, Mass.	1956	33,500
James R. Kerr(1)(2)	President and Chief Operating Officer, Avco Corporation, New York, N. Y.	1959	25,101(4)
Edward H. Litchfield	Chairman of the Board, SCM Corporation, New York, N. Y., and Governmental Affairs International, Washington, D. C.	1955	10,000
John Angus McDougald	Chairman of the Executive Committee and Vice-President, Argus Corporation Limited, Toronto, Canada, Investment Holding Company.	1953	10,000

Name	Principal occupation	Year first elected director	Common stock of Avco beneficially owned as of July 15, 1967
Matthew A. McLaughlin(1)	Vice President and General Counsel, Avco Corporation, New York, N. Y.	1957	9,275(3)
William I. Myers(1)	Agricultural Consultant.	1950	2,000
Benjamin H. Namm	Chairman of the Board, Arebec Corporation, New York, N. Y.	1941	4,806
Arthur E. Rasmussen(2)	Financial Vice President, Avco Corporation, New York, N. Y.	1964	15,000
Kendrick R. Wilson, Jr.(1)(2)	Chairman of the Board and Chief Executive Officer, Avco Corporation, New York, N. Y.	1955	27,000
Richard W. Yantis(2)	Chairman of the Board, Avco Delta Corporation, New York, N. Y., and Avco Delta Corporation Canada Limited, London, Canada.	1964	35,175

(1) Member of the Executive Committee.

(2) Proposed member, together with Robert D. Harrington, of the Finance Committee to be formed. (See the caption "Future Operations and Management" above.)

(3) These shares do not include (*i*) 12,705 shares owned by Mr. Gosnell's wife, (*ii*) 1,000 shares owned by a trust of which Mr. Kahn is a trustee and under which a member of his immediate family is a beneficiary, and (*iii*) 150 shares owned by one of Mr. McLaughlin's sons and an additional 100 shares held by another of his sons as custodian for a third minor son under the New York Uniform Gifts to Minors Act. Each of the directors concerned has disclaimed beneficial ownership of such shares.

(4) Mr. Kerr also owned $2,000 principal amount of Avco's 5% convertible subordinated debentures as of July 15, 1967.

For services rendered since December 1, 1965 in connection with private placements by Avco Delta Corporation of an aggregate of $80,200,000 principal amount of its senior and senior subordinated notes, Lehman Brothers, of which Mr. Kahn is a partner, has been paid fees of $251,000 by Avco Delta.

Mr. Yantis and his immediate family own all of the outstanding capital stock of Mardic Limited, which in turn owned 670 Series D first preference shares of Avco Delta Corporation Canada Limited as of July 15, 1967. Mardic also owns approximately 18% of the outstanding common and preferred stock of Meteor Securities Ltd. In the ordinary course of business since 1962 and at rates competitive with those available on the open market, Avco Delta Canada has made secured loans to and purchased secured wholesale and retail paper from subsidiaries of Meteor which were franchised Mercury automobile dealers. At June 30, 1967, the aggregate outstanding amounts of such loans, wholesale paper and retail paper amounted to $77,000, $358,000 and $1,842,000, respectively.

Mardic Limited also owns approximately 1.2% and Mr. Jones owns approximately .6% of the outstanding common stock of Allied Innkeepers Limited of Ontario, Canada, and they own approximately 8.8% and 2.4%, respectively, of Allied's outstanding preferred stock. For information concerning the interest of Paul Revere and its subsidiaries in Allied and certain business relationships between Allied and Avco Delta Corporation Canada Limited, see the caption "Future Operations and Management" above.

Remuneration of Officers and Directors

The following tabulation shows the aggregate direct remuneration paid by Avco and its subsidiaries during the fiscal year 1966 (*a*) to each director and each of the three highest paid officers of Avco whose aggregate direct remuneration exceeded $30,000 and (*b*) to all 31 officers and directors of

Avco as a group, as well as the estimated amount of annual benefits which would be received by each such designated person or group under Avco's Pension Plan (as amended in 1967) upon retirement at age 65 and assuming no change in present rates of compensation:

Name	Capacities in which remuneration was received	Aggregate remuneration*	Estimated annual retirement benefits
Kendrick R. Wilson, Jr.	Chairman of the Board	$ 267,500	$ 50,970
James R. Kerr	President	267,500	47,010
Earl H. Blaik	Chairman of the Executive Committee	188,750	—
Matthew A. McLaughlin	Vice President and General Counsel	145,833	18,750
Arthur R. Kantrowitz	Vice President	146,731	23,790
Arthur E. Rasmussen	Financial Vice President	143,333	27,810
Richard W. Yantis	Chairman of the Board, Avco Delta Corporation Canada Limited	143,971	16,650**
All 31 officers and directors as a group		2,613,334	390,970

* Includes (*i*) salary and (*ii*) incentive compensation accrued in 1966 but paid in 1967 pursuant to Avco's Incentive Compensation Plan described below.

** Mr. Yantis' estimated retirement benefits are pursuant to a contributory pension plan of Avco Delta Corporation Canada Limited, to which he made a required contribution of approximately $1,388 and Avco Delta Canada contributed approximately $1,000 for his account during the 1966 fiscal year.

Employment Agreements

Avco entered into agreements with Messrs. Wilson and Kerr on October 26, 1962, pursuant to which each will be employed in a full-time executive capacity until November 30, 1969, and indefinitely thereafter unless the agreements are terminated upon 90 days' notice by either party. Each will receive compensation at his present annual salary rate of $130,000 and $120,000, respectively, except that the Board of Directors may increase such salaries effective on the date of any annual meeting of the Board.

Upon cessation of such full-time employment, Messrs. Wilson and Kerr will each be employed as consultants to Avco and its subsidiaries until their respective normal retirement dates under Avco's Pension Plan at an annual salary of $25,000. In addition each will be entitled to an aggregate amount equal to $10,000 multiplied by the number of full years or part thereof of his employment as a consultant by Avco, to be paid in installments following the cessation of his employment as a consultant. Mr. Kerr will also receive an aggregate amount equal to the sum of (*i*) $53,000, (*ii*) $10,000 multiplied by the number of full years or part thereof of his full-time employment by Avco since October 26, 1962, and (*iii*) a cost of living factor at the rate of 3% compounded annually from October 26, 1962, on said $53,000 and on the accumulating balance of said $10,000 amounts, such amount to be paid to him in installments following the cessation of his full-time employment by Avco. In the event of the death of either individual prior to the receipt by him of the aggregate amounts specified in the two preceding sentences, the unpaid balance of such amounts will be paid to his legal representatives.

Pursuant to an agreement with Avco which was also entered into on October 26, 1962, Mr. Blaik will be employed in a full-time executive capacity until February 15, 1969. He will receive compensation at his present annual salary rate of $95,000, except that the Board of Directors may increase such salary effective on the date of any annual meeting of the Board.

Avco entered into a revised agreement with Mr. McLaughlin on June 12, 1967, providing for his employment in a full-time executive capacity until December 1, 1968, or such later date as may be mutually agreed upon. He will receive compensation at his present annual salary rate of $75,000, except that the Board of Directors may increase such salary effective on the date of any annual meeting of the Board. Upon cessation of his full-time employment, Mr. McLaughlin will be employed until his death as a consultant to Avco and its subsidiaries at an annual salary of $15,000 during the first 10 years of such part-time employment and $5,000 annually thereafter. In the event that Mr. McLaughlin dies during his full-time employment by Avco or during the first ten years of his part-time employment, Avco will make payments to Mr. McLaughlin's widow, or certain other designated beneficiaries, at the rate of $5,000 a year for the period commencing with the date of his death and ending ten years after the cessation of his full-time employment.

Under each of the foregoing contracts, the individuals have agreed that, during the period they are receiving compensation from Avco, they will not engage, directly or indirectly, in any business competitive with that of Avco or its subsidiaries except with the written consent of Avco. During their full-time employment, each will be eligible to participate in Avco's Incentive Compensation Plan and, with the exception of Mr. Blaik, Avco's Pension Plan.

Avco Delta Corporation Canada Limited entered into an agreement with Mr. Yantis effective December 7, 1964, providing for his employment in a full-time executive capacity until December 31, 1968. He will receive compensation at his present annual salary rate of $82,500 (Canadian), except that the Board of Directors of Avco Delta Canada may increase such salary effective at any time in the future. Under such contract, Mr. Yantis has agreed not to engage, during the period of his employment, either directly or indirectly, in any business competitive with Avco, Avco Delta Canada or any subsidiaries of Avco Delta Canada except with the written consent of Avco Delta Canada.

Incentive Compensation

Avco's Incentive Compensation Plan, which was last approved by the stockholders at the 1965 Annual Meeting, provides that there shall be payable thereunder to eligible officers and employees an amount equal to 10% of the amount by which Consolidated Earnings, as defined, exceed 8% of Consolidated Capital, as defined, as determined at the end of the fiscal year by Avco's independent auditors.

"Consolidated Earnings" is defined to mean the consolidated net earnings of Avco and subsidiaries (determined in conformity with generally accepted accounting principles), before inclusion of Avco's equity in the earnings or losses of Excluded Subsidiaries, as defined, and before deduction of (*i*) federal and foreign income taxes of Avco and subsidiaries (other than Excluded Subsidiaries) and (*ii*) the incentive compensation payable under the plan. "Consolidated Capital" is defined to mean the stockholders' equity in Avco and subsidiaries, less the aggregate amount of any equity investments in, advances to or accounts with Excluded Subsidiaries. "Excluded Subsidiaries" are defined to mean all subsidiaries (majority owned and 50% owned companies) other than (*x*) consolidated subsidiaries and (*y*) non-consolidated subsidiaries in which Avco owns directly or indirectly 80% or more of the voting stock. Avco's Board of Directors has recently amended the plan in order also to exclude Paul Revere and its subsidiaries for the 1967 fiscal year, if the exchange offer to Paul Revere's stockholders becomes effective as specified above.

For each fiscal year, the Board of Directors determines those persons or classes of persons among the officers and employees of Avco and its subsidiaries (other than Excluded Subsidiaries) who will be eligible to participate in the Incentive Compensation Plan and also determines the extent to which the Chairman of the Board is to participate. The Chairman thereupon determines which of the persons among the eligible persons or classes of persons (other than himself) so designated are to participate and the amount of such participation.

Avco paid a total of $4,915,713 under the Incentive Compensation Plan to all of its employees as a group for the 1966 fiscal year. Of this amount, $1,301,071 was paid to all officers and directors as a group.

Stock Options

Avco's Stock Option Plan, which was last approved by the stockholders at the 1960 Annual Meeting, provides for the granting of options to acquire shares of the common stock of Avco in cumulative installments over a five-year period at an option price which must be at least one-eighth of a point above the closing market price of such stock on the New York Stock Exchange on the date the option is granted. The consideration for the granting of options under the plan is in each case the benefit resulting from the continuation of faithful service to Avco by the optionee, and the optionee's right to exercise his option vests in three equal annual installments commencing one year from the date of grant.

Each option which is presently outstanding under the Stock Option Plan is, and each option to be granted in the future pursuant to the terms of the plan will be, a "qualified stock option", as defined in Section 422 of the Internal Revenue Code of 1954.

Since December 1, 1965, the only options granted to any officer or director of Avco were to purchase 3,500 shares on or prior to February 16, 1971 at an option price of $26.875 per share, 1,000 shares on or prior to May 20, 1971 at an option price of $24.50 per share, and 1,500 shares on or prior to August 15, 1972 at an option price of $60.125 per share.

During the period from December 1, 1965 to August 31, 1967, options to purchase a total of 29,493 shares were exercised by all officers and directors as a group. Mr. Wilson purchased 10,000 shares at a price of $23.50 per share, and the closing market price of Avco's common stock on the New York Stock Exchange on the date of such purchase was $42.625 per share. The remaining shares were purchased at prices ranging from $19 to $26.875 on dates when the closing market prices of Avco's common stock on the New York Stock Exchange ranged from $24.875 to $59. (See the heading "Comparative Market Prices" above for information as to the market prices of Avco's common stock by quarter since January 1, 1965.)

Mr. Yantis recently purchased from Avco Delta Corporation Canada Limited 6,000 of its common shares at a price of $18.90 (Canadian) per share pursuant to an option granted to him by Avco Delta Canada in June 1964. Shortly after his acquisition of such shares, Mr. Yantis sold them to Avco Delta Corporation at a price per share equal to the $57.125 closing market price of Avco's common stock on the New York Stock Exchange on the date of sale.

ADDITIONAL FINANCIAL STATEMENTS

Set forth on the following pages are additional financial statements relating to Avco and Paul Revere.

Submitted by order of the Board of Directors.

Gordon M. Tuttle

New York, New York
September 19, 1967

GORDON M. TUTTLE, *Secretary*

It is important that as many shares of Common and $4.50 Cumulative Convertible Preferred Stock of Avco as possible be represented at the Special Meeting of Stockholders. All stockholders are accordingly urged to date, sign and mail the accompanying proxy promptly in the return envelope supplied.

INDEX TO FINANCIAL STATEMENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Avco Corporation

We have examined the accompanying statement of consolidated financial position of Avco Corporation at November 30, 1966, the related statements of consolidated earnings for the five years then ended and of additional paid-in capital and of retained earnings for the three years then ended. We have also examined the accompanying statement of consolidated financial position of Avco Delta Corporation at November 30, 1966 and the related statements of consolidated earnings and of additional paid-in capital and of retained earnings for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due to Avco Corporation from the U. S. government, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Avco Corporation at November 30, 1966 and the consolidated results of its operations for the five years then ended, and the consolidated financial position of Avco Delta Corporation at November 30, 1966 and the consolidated results of its operations for the two years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

We have also reviewed the compilation of the pro forma financial statements shown elsewhere herein. In our opinion, these pro forma statements have been properly compiled on the bases stated.

Arthur Young & Company

New York, N. Y.
July 28, 1967

REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
THE PAUL REVERE CORPORATION

We have examined the accompanying consolidated balance sheet of The Paul Revere Corporation at December 31, 1966 and the related consolidated statements of income and earned surplus for the two years then ended. We have also made an examination of the condensed financial statements of The Paul Revere Corporation (not consolidated) at December 31, 1966 and for the two years then ended included in Note 1 to the accompanying financial statements. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of The Paul Revere Corporation (Company and consolidated) at December 31, 1966 and the related results of operations for the two years then ended, in conformity with generally accepted accounting principles (see Note 2 with respect to the equity in earnings and net assets of The Paul Revere Life Insurance Company) applied on a consistent basis during the period after the restatement mentioned in Note 2 to the accompanying consolidated financial statements.

ARTHUR YOUNG & COMPANY

Boston, Massachusetts
May 31, 1967

The Board of Directors
THE PAUL REVERE LIFE INSURANCE COMPANY

We have examined the accompanying balance sheet of The Paul Revere Life Insurance Company at December 31, 1966 and the related statements of income and surplus for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The amounts at which the actuarial items are stated in the financial statements were certified by the Division of Insurance of the Commonwealth of Massachusetts.

In our opinion, based upon our examination and upon the aforementioned certification of actuarial items, the statements mentioned above present fairly the financial position of The Paul Revere Life Insurance Company at December 31, 1966 and the results of its operations for the two years then ended, in accordance with accounting practices prescribed by the Division of Insurance of the Commonwealth of Massachusetts, applied on a consistent basis during the period. As described in Note 1 to the accompanying financial statements, these practices differ from accounting principles generally accepted for use by other industries.

ARTHUR YOUNG & COMPANY

Boston, Massachusetts
May 31, 1967

AVCO CORPORATION

CONSOLIDATED FINANCIAL POSITION (NOTE 1)

ASSETS

	November 30, 1966	May 31, 1967 (unaudited)
	(Stated in thousands of dollars)	
Current assets:		
Cash	$ 26,447	$ 41,679
Marketable securities, at cost (approximate market)	6,841	2,098
Receivables (including amounts due from U. S. government — $62,241,000 in 1966; $59,149,000 in 1967)	113,843	113,676
Allowances for losses and discounts	(912)	(1,012)
Net accounts receivable	112,931	112,664
Inventories, at the lower of cost or market (Note 2):		
U. S. government contracts and subcontracts	110,324	168,746
Progress payments	(39,520)	(74,784)
	70,804	93,962
Civilian:		
Finished goods	16,525	22,921
Work in process, raw materials and parts	34,980	41,964
Total inventories	122,309	158,847
Total current assets	268,528	315,288
Property, plant and equipment, at cost (Note 3):		
Land	2,999	3,132
Buildings and improvements	68,304	69,991
Machinery and equipment	62,293	66,327
Furniture, automobiles, etc.	10,550	11,251
Patterns, dies, jigs and special tools	5,057	5,311
Construction in progress	4,336	9,650
	153,539	165,662
Accumulated depreciation	(77,941)	(81,963)
Net property, plant and equipment	75,598	83,699
Investment in Avco Delta Corporation, at equity in net assets which include $55,307,000 in 1966 and $55,388,000 in 1967 of cost in excess of Avco Delta's acquired equity in net assets, which excess is being carried without amortization (Note 1)	106,169	109,705
Other assets:		
Miscellaneous investments, at cost	9,986	12,723
Intangible assets recognized in acquisitions of non-finance businesses, being carried without amortization (Note 3)	20,227	20,227
Other intangible assets, at cost less amortization (Note 3)	604	518
	30,817	33,468
	$481,112	$542,160

See accompanying notes.

AVCO CORPORATION

CONSOLIDATED FINANCIAL POSITION (NOTE 1)

LIABILITIES AND STOCKHOLDERS' EQUITY

	November 30, 1966	May 31, 1967 (unaudited)
	(Stated in thousands of dollars)	
Current liabilities:		
Notes payable:		
Banks	$ —	$ 2,613
Commercial paper	—	50,950
Accounts payable	37,149	44,996
U. S. federal and Canadian income taxes	22,938	13,765
Other taxes	6,637	6,804
Accrued salaries and wages	18,279	18,885
Other accrued liabilities	15,937	14,280
Long term debt installments due within one year	2,904	2,766
Total current liabilities	103,844	155,059
Long term debt (Note 4)	124,341	124,611
Contingent liabilities (Notes 1 and 8)		
Stockholders' equity:		
Preferred stock, without par value:		
Authorized: 200,000 voting shares		
Designated and issued: $4.50 cumulative convertible, stated at liquidating value of $100 per share — 35,000 shares	3,500	3,500
Common stock, par value $3 per share:		
Authorized: 20,000,000 shares		
Issued: 13,961,877 shares in 1966; 14,124,569 in 1967	41,886	42,374
Reserved: 564,633 shares in 1966; 401,738 in 1967 (Note 5)		
Additional paid-in capital	80,880	82,919
Retained earnings (Note 6)	126,715	133,700
	252,981	262,493
Cost of common stock held in treasury: 1,900 shares in 1966; 100 in 1967	(54)	(3)
Total stockholders' equity	252,927	262,490
	$481,112	$542,160

See accompanying notes.

AVCO CORPORATION

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

	Year ended November 30, 1964	1965	1966	Six months ended May 31, 1967 (unaudited)
	(Stated in thousands of dollars)			
Balance at beginning of period	$34,725	$32,893	$77,789	$80,880
Excess of market price over par value of common shares issued in exchange for shares of Avco Delta Corporation Canada Limited (formerly Delta Acceptance Corporation Limited) (shares issued: 2,340,456 in 1965 and 66,800 in 1966)	—	44,176	1,238	—
Excess of proceeds received over par value of common stock issued on exercise of options (Note 5)	417	433	1,032	1,115
Excess, over par value, of principal amount of 5% convertible subordinated debentures converted into common shares, after adjustment for purchase of fractional shares, etc.:				
(Principal amount / Number of common shares)				
1964 — $ 192,000 / 16,547	141			
1965 — 385,000 / 33,407		287		
1966 — 1,102,000 / 95,674			821	
1967 — 1,252,000 / 108,684				924
Excess of purchase price over $2,230,000 principal amount of 5% convertible subordinated debentures purchased for retirement	(2,390)	—	—	—
Balance at end of period	$32,893	$77,789	$80,880	$82,919

CONSOLIDATED RETAINED EARNINGS

	Year ended November 30, 1964	1965	1966	Six months ended May 31, 1967 (unaudited)
	(Stated in thousands of dollars)			
Balance at beginning of period	$ 87,135	$ 98,718	$109,406	$126,715
Net earnings	22,645	24,433	32,014	15,487
	109,780	123,151	141,420	142,202
Cash dividends declared:				
Preferred stock ($1.12½ per share in 1965; $4.50 per share in 1966; $2.25 per share in the six months ended May 31, 1967)	—	39	158	79
Common stock ($1.00 per share in 1964 and 1965; $1.05 per share in 1966; $.60 per share in the six months ended May 31, 1967)	11,062	13,706	14,547	8,423
	11,062	13,745	14,705	8,502
Balance at end of period (Note 6)	$ 98,718	$109,406	$126,715	$133,700

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Principles of consolidation

The consolidated financial statements of Avco Corporation include the accounts of all wholly-owned subsidiaries other than finance subsidiaries (operated through Avco Delta Corporation). The consolidated financial statements of Avco Delta Corporation are shown separately. The net assets shown by the books of the consolidated subsidiaries exceeded the amount at which Avco's investments therein are carried on its books by $37,099,000 at November 30, 1966 and $38,687,000 at May 31, 1967. These amounts (representing undistributed earnings of the consolidated subsidiaries from dates of acquisition) have been included in retained earnings in the statement of consolidated financial position. Intercompany transactions and profits have been eliminated in consolidation.

The accounts of Avco's consolidated foreign subsidiaries have been translated into U. S. dollars generally as follows: all assets, except property, plant and equipment, and all liabilities at the rate of exchange at the end of the period; income and expense accounts, excluding depreciation, at the average exchange rate for the period; and all other accounts substantially at the exchange rate prevailing at the time of the original transaction. The net adjustments, which were not material, have been reflected in earnings.

At November 30, 1966 and May 31, 1967, Avco was contingently liable with respect to approximately $21,200,000 and $31,360,000, respectively, of receivables from commercial customers sold to Avco Delta.

NOTE 2 — Inventories

U. S. government contracts and subcontracts are stated at accumulated costs less the estimated average cost of items delivered (computed from accumulated costs plus estimates of costs of completion) and less, where applicable, allowance for estimated losses to be sustained on completion. Civilian inventories are stated at the lower of cost (determined substantially by the "first-in, first-out" method) or realizable market after allowance for obsolete and slow moving items. It is impracticable to segregate inventories of raw materials and parts from work in process.

Inventory balances, before deduction of progress payments were as follows: $63,318,000 at November 30, 1961, $105,931,000 at November 30, 1962, $87,099,000 at November 30, 1963, $97,958,000 at November 30, 1964, $104,818,000 at November 30, 1965, $161,829,000 at November 30, 1966, and $233,631,000 at May 31, 1967.

NOTE 3 — Property, depreciation and amortization

Depreciation of property, plant and equipment is provided on the basis of the estimated useful lives of the various classes of depreciable assets which were as follows for the principal asset classifications:

Buildings and improvements	5 to 50 years
Machinery and equipment	4 to 15 years
Furniture and office equipment	5 to 20 years
Autos, trucks and airplanes	3 to 6 years
Patterns, dies, jigs and special tools	3 to 10 years

Avco and its domestic subsidiaries compute depreciation principally by the "straight-line" and "sum-of-the-years-digits" methods except that certain facilities certified by the U. S. government as necessary in the defense program are depreciated at rates established by the U. S. Emergency Facilities Depreciation Board for contract cost purposes which result in higher rates during the first five years of use thereof and lower rates thereafter; such facilities were substantially fully depreciated at May 31, 1967. Avco's consolidated foreign subsidiaries compute depreciation principally by the "declining-balance" method.

Avco and its subsidiaries follow the policy of capitalizing expenditures for expansion of plant facilities and expenditures which materially increase the life of the plant. Expenditures for maintenance and repairs are charged to earnings as incurred.

At the time an item of property, plant and equipment which is depreciated as a unit is sold or retired, the difference between the net book value and proceeds from sale or retirement is charged or credited to earnings. When an item of property, plant and equipment depreciated as part of a group of assets is retired, the cost of the item is charged to accumulated depreciation; when such an item is sold, the difference between the net book value and proceeds is charged or credited to earnings.

Amortization of patents is provided by the "straight-line" method over periods not in excess of the lives thereof. Amortization of license costs other than those recognized in acquisitions is provided by the "straight-line" method over a period of ten years. Intangible assets recognized in acquisitions of non-finance businesses are being carried without amortization subject to periodic review.

NOTE 4 — Long term debt

Long term debt consisted of:

	November 30, 1966	May 31, 1967
	(Stated in thousands of dollars)	
Notes payable to banks issued under revolving credit agreement	$ 72,500	$ 75,000
4⅞% notes due in annual installments of $2,500,000 commencing October 1, 1967 until October 1, 1985 when the balance of $5,000,000 is due	50,000	50,000
5% convertible subordinated debentures maturing February 1, 1979	2,825	1,573
Miscellaneous (interest rates to 6% and maturities to 1978)	1,920	804
	127,245	127,377
Installments due within one year (included in current liabilities)	(2,904)	(2,766)
	$124,341	$124,611

An agreement with a group of banks provides Avco a revolving line of credit of $100,000,000 until April 15, 1970. Annual installments of long term debt, other than the revolving credit notes payable to banks, are $2,766,000 for the 1968 fiscal year, $2,691,000 for the 1969 fiscal year, $2,611,000 for the 1970 fiscal year, and $2,546,000 for the 1971 fiscal year.

NOTE 5 — Common stock

At May 31, 1967, Avco common stock was reserved for the following: exchange for minority interests in a subsidiary of Avco Delta Corporation, 14,510 shares; conversion of $4.50 preferred stock at $28.20 per share, 124,113 shares; and conversion of convertible debentures at $11.50 per share, 136,808 shares. There were also reserved under a stock option plan approved by Avco stockholders 126,307 shares of common stock and the following options, expiring at various dates between February 23, 1970 and January 27, 1972, were outstanding (of which options on 7,347 shares were exercisable at May 31, 1967):

Fiscal year granted	Number of shares	Option price: Per share	Option price: Total	Market price on date option was granted: Per share	Market price on date option was granted: Total
1965	4,008	$22.625 to $25.375	$ 91,000	$22.50 to $25.25	$ 91,000
1966	27,184	24.50 to 26.875	710,000	24.375 to 26.75	707,000
1967	1,000	28.625	29,000	28.50	29,000
	32,192		$830,000		$827,000

Options which became exercisable and those exercised during the three years and six months ended May 31, 1967 are tabulated below:

	Number of shares	Option price: Per share	Option price: Total	Market price on date option became exercisable or was exercised: Per share	Market price on date option became exercisable or was exercised: Total
Years became exercisable:					
1964	43,822	$19.00 to $28.125	$ 974,000	$20.25 to $23.75	$ 951,000
1965	21,931	19.375 to 28.125	516,000	20.00 to 25.25	506,000
1966	5,668	22.625 to 26.625	135,000	22.625 to 29.75	139,000
1967	9,740	24.50 to 26.875	254,000	23.625 to 48.625	306,000
Years exercised:					
1964	37,787	$13.25 to $21.00	$ 530,000	$20.75 to $24.25	$ 836,000
1965	34,602	13.25 to 21.00	536,000	20.25 to 26.375	763,000
1966	56,766	19.00 to 25.625	1,202,000	24.50 to 31.00	1,537,000
1967	54,008	19.375 to 26.75	1,277,000	25.875 to 50.75	2,131,000

The plan provides that the option price of each option must be at least ⅛ of a point above the closing market price of Avco common stock on the New York Stock Exchange on the date the option is granted. The first ⅓ of the option stock may be purchased by the optionee at any time after one year from the date it is granted, the second ⅓ at any

time after two years from such date, and the third ⅓ at any time after three years from such date, provided that no part of such option may be exercised after five years from such date.

When options are exercised, the excess of proceeds received over the par value of the shares issued is credited to additional paid-in capital. No charges are made against earnings in accounting for the options.

NOTE 6 — Retained earnings

For restrictions on the payment of cash dividends, see the heading "Capital Stock — Dividend Restrictions, etc." appearing elsewhere herein.

NOTE 7 — Retirement plans

Avco and its domestic subsidiaries have had in effect since 1941 an insured contributory retirement and insurance plan in which substantially all salaried employees participate. No recognition is given in the plan to past services rendered by employees prior to adoption of the plan or their participation therein. Avco's share of the cost of this plan was $2,699,000 in 1964, $2,775,000 in 1965, $3,262,000 in 1966 and $2,184,000 for the six months ended May 31, 1967.

Trusteed non-contributory pension plans have been established under the terms of collective bargaining agreements which at May 31, 1967 covered substantially all of the hourly employees of Avco and its consolidated subsidiaries. The cost of these plans was $1,421,000 in 1964, $1,625,000 in 1965, $2,237,000 in 1966 and $1,320,000 for the six months ended May 31, 1967 of which $589,000 in 1964, $679,000 in 1965, $779,000 in 1966 and $386,000 for the six months ended May 31, 1967 was applicable to past service benefits. Unfunded past service costs, which are being funded on the basis of a level method over a period of thirty years, are estimated at $13,300,000 at May 31, 1967.

NOTE 8 — Litigation

See the caption "Background Information" appearing elsewhere herein for information regarding an action instituted against Avco in April 1967.

NOTE 9 — Supplementary profit and loss information

	Year ended November 30,			Six months ended
	1964	1965	1966	May 31, 1967
	(Stated in thousands of dollars)			
Maintenance and repairs, charged to:				
Cost of sales	$ 9,165	$ 9,875	$14,141	$8,289
Selling and administrative expenses	240	213	198	147
Total	$ 9,405	$10,088	$14,339	$8,436
Amortization of intangible assets, charged to cost of sales	$ 146	$ 136	$ 172	$ 86
Taxes, other than U. S. federal and Canadian income taxes, charged to:				
Cost of sales	$ 8,076	$ 7,459	$11,614	$8,034
Selling and administrative expenses	2,118	2,029	3,039	1,565
Total	$10,194	$ 9,488	$14,653	$9,599
Composed of:				
Social security	$ 6,672	$ 6,203	$ 9,986	$7,224
Real estate and personal property	1,721	1,574	2,040	1,149
State corporate	1,465	1,341	2,063	756
Miscellaneous	336	370	564	470
Total	$10,194	$ 9,488	$14,653	$9,599
Rents, charged to:				
Cost of sales	$ 4,214	$ 5,300	$ 5,536	$2,411
Selling and administrative expenses	1,299	1,238	1,014	576
Total	$ 5,513	$ 6,538	$ 6,550	$2,987
Royalties, charged to cost of sales	$ 646	$ 736	$ 932	$ 431

No management or service contract fees were paid.

Depreciation of property, plant and equipment charged to earnings, set forth separately in the statement of consolidated earnings, is principally applicable to cost of sales.

AVCO DELTA CORPORATION

CONSOLIDATED FINANCIAL POSITION

ASSETS

	November 30, 1966	May 31, 1967 (unaudited)
	(Stated in thousands of dollars)	
Cash	$ 33,913	$ 20,741
Marketable securities, at cost (approximate market)	333	2,194
Receivables (Note 2):		
Retail installment	237,440	251,834
Loans	179,110	196,374
Wholesale (on Avco New Idea farm equipment)	21,198	31,358
Other wholesale and miscellaneous	11,182	11,101
	448,930	490,667
Unearned discount and service charges	(51,441)	(57,694)
Allowance for losses	(7,574)	(8,463)
Net receivables	389,915	424,510
Other current assets	3,194	3,381
Total current assets	427,355	450,826
Net assets of insurance subsidiaries (Note 1)	6,839	6,989
Property and equipment and deferred expenses at cost less accumulated depreciation and amortization	3,835	3,755
Excess of cost of investments in subsidiaries over acquired equity in net assets, being carried without amortization	55,307	55,388
	$493,336	$516,958

LIABILITIES AND STOCKHOLDER EQUITY

	November 30, 1966	May 31, 1967 (unaudited)
Notes payable:		
Banks	$ 93,710	$ 76,085
Commercial paper	102,930	97,734
Long term debt installments due within one year	6,820	6,578
Savings deposits	14,167	13,606
Accounts payable and accrued liabilities	7,324	6,991
U. S. federal and Canadian income taxes	2,572	2,205
Dealers' reserves and holdbacks	7,086	7,946
Total current liabilities	234,609	211,145
Long term debt (Note 3)	147,694	191,361
Minority interest in subsidiary (Note 1)	4,864	4,747
Stockholder equity (Note 1):		
Capital stock, no par value:		
Authorized: 1,000 shares		
Issued and outstanding: 838 shares	33,850	33,850
Additional paid-in capital	63,857	63,909
Retaired earnings (Note 4)	8,462	11,946
Total stockholder equity	106,169	109,705
	$493,336	$516,958

See accompanying notes.

AVCO DELTA CORPORATION

CONSOLIDATED EARNINGS

	Year ended November 30, 1965	Year ended November 30, 1966	Six months ended May 31, 1967 (unaudited)
	(Stated in thousands of dollars)		
Revenues:			
Interest, discount and service charges of finance companies	$40,317	$56,279*	$33,928
Income of insurance subsidiaries before income taxes	881	1,649*	743
	41,198	57,928	34,671
Expenses:			
Interest on long term debt	4,332	7,871	4,890
Other interest	7,384	9,826	5,899
Provision for losses on collection of receivables	5,211	6,345	3,497
Other operating expenses	16,198	23,011	13,515
Income taxes:			
U. S. federal	2,478	3,438	1,668
Canadian federal and provincial	1,568	2,150	1,582
	37,171	52,641	31,051
Earnings before minority interest	4,027	5,287	3,620
Preferred stock dividends paid by subsidiary	466	386	136
Net earnings	$ 3,561	$ 4,901	$ 3,484

* Revenue classifications for 1966 have been restated to conform to 1967 classifications.

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

	Year ended November 30, 1965	Year ended November 30, 1966	Six months ended May 31, 1967 (unaudited)
	(Stated in thousands of dollars)		
Balance at beginning of period	*	$62,122	$63,857
Contribution by Avco Corporation of shares of a subsidiary of Avco Delta Corporation (Note 1)	$62,122	1,735	52
Balance at end of period	$62,122	$63,857	$63,909

CONSOLIDATED RETAINED EARNINGS

	Year ended November 30, 1965	Year ended November 30, 1966	Six months ended May 31, 1967 (unaudited)
	(Stated in thousands of dollars)		
Balance at beginning of period	*	$ 3,561	$ 8,462
Net earnings	$ 3,561	4,901	3,484
Balance at end of period (Note 4)	$ 3,561	$ 8,462	$11,946

* Avco Delta Corporation had no operations prior to December 7, 1964. (Note 1.)

See accompanying notes.

AVCO DELTA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Principles of consolidation

Avco Delta Corporation, a wholly-owned subsidiary of Avco Corporation, had no operations prior to December 7, 1964. As of that date Avco Delta acquired, through a capital contribution from Avco to its additional paid-in capital, substantially all of the outstanding common shares and a significant portion of the outstanding preference shares of Delta Acceptance Corporation Limited, stated at the market value of the Avco shares exchanged for Delta shares. Delta's name was subsequently changed to Avco Delta Corporation Canada Limited. Shares of Avco Delta's capital stock were sold to Avco for $23,800,000 and $10,000,000 cash during 1965 and 1966, respectively. Minority interest in subsidiary is represented by 5½% to 6% cumulative preferred stock, $100 Canadian par value, of Avco Delta Canada.

Avco assists Avco Delta in arranging and obtaining financing, and Avco Delta purchases wholesale receivables acquired by Avco in the sale of farm equipment; in all other material respects the operations of Avco Delta are separate and distinct from those of Avco.

The consolidated financial statements include the accounts of all subsidiaries except insurance companies; combined assets ($16,100,000 at November 30, 1966, and $16,779,000 at May 31, 1967) less combined liabilities ($9,261,000 at November 30, 1966, and $9,790,000 at May 31, 1967) of insurance companies are shown separately in the statements of consolidated financial position and their income before income taxes is shown separately in the statement of consolidated earnings.

Canadian dollar amounts have been translated at the established rate of exchange of $1 Canadian = $.925 U. S. At November 30, 1966, $210,961,000 of current assets and $15,073,000 of current liabilities and long term debt were represented by accounts to be settled in Canadian funds; at May 31, 1967, these amounts were $219,039,000 and $12,289,000, respectively.

Investments in consolidated subsidiaries are carried on Avco Delta's books at $48,852,000 at November 30, 1966 and $46,536,000 at May 31, 1967 in excess of the net assets shown by the books of such subsidiaries. In consolidation $54,514,000 at November 30, 1966 and $54,595,000 at May 31, 1967 have been included in excess of cost of investments in subsidiaries over acquired equity in net assets which is being carried without amortization subject to periodic review, and $5,662,000 at November 30, 1966 and $8,059,000 at May 31, 1967 (representing undistributed earnings of the consolidated subsidiaries from dates of acquisition) have been included in consolidated retained earnings. Excess of cost of investments in subsidiaries over acquired equity in net assets includes the cost of investments by a subsidiary of Avco Delta over acquired equity in net assets (amounting to $793,000), being carried without amortization. Intercompany transactions have been eliminated in consolidation.

NOTE 2 — Receivables

Receivables mature in monthly installments, generally over periods from one to thirty-six months (certain types of receivables mature over periods from one to sixty months) and consequently include installments due after one year. Such installments have been included with current assets in conformity with generally recognized trade practice. It is estimated that approximately 50% of the receivables at November 30, 1966 and May 31, 1967 were due after one year.

Unearned discount and service charges represent the portion of interest, finance charges, etc. included in the original face amount of the related receivables which is deemed to be unearned at the statement date. A portion of such charges is taken into income at the time of purchase of each receivable to offset acquisition costs, and the balance is credited to income over the terms of the related receivable approximately in proportion to the uncollected balance of principal. Interest on loans which do not include interest or finance charges in the original face amount is taken into earnings generally as accrued, and interest accrued at the statement date has been included in receivables.

NOTE 3 — Long term debt

Long term debt consisted of:

	Required annual payments (as of May 31, 1967)	November 30, 1966	May 31, 1967
		(Stated in thousands of dollars)	
Senior notes payable —			
6½% due May 15, 1967		$ 600	
5¾% due August 1, 1969	$ 205,000/1967-1968	615	$ 615
6½% due February 15, 1970	50,000/1968-1969	200	150
6⅜% due September 15, 1971	300,000/1967-1970	1,400	1,400
6% due June 1, 1973	800,000/1967-1972	5,600	5,600
6% due March 1, 1974	750,000/1968-1973	6,000	5,250
6½% due January 1, 1975	334,000/1968-1974	2,996	2,662
5½% due March 1, 1975	1,250,000/1968-1974	11,250	10,000
5½% due April 1, 1976	175,000/1968-1975	1,750	1,575
6¼% due March 15, 1977*	28,000/1968-1976	277	277
6¾% due March 15, 1977*	18,000/1968-1976	185	185
6⅛% due June 1, 1978*	46,000/1969-1977	463	463
6⅜% due June 1, 1978*	46,000/1969-1977	462	462
5% due September 1, 1979	100,000/1970-1978	1,000	1,000
5⅛% due July 1, 1980	1,395,000/1968-1979	23,250	23,250
5⅜% due November 15, 1980	2,000,000/1968-1979	33,325	33,325
5¾% due April 1, 1981	1,875,000/1969-1980	9,890	25,000
6½% due October 1, 1981	2,828,000/1969-1980	8,600	37,700
Total senior notes payable		107,863	148,914
Senior subordinated notes payable —			
4½% due January 15, 1967		50	
5¼ % due June 1, 1968	35,000/1967	185	185
6% due August 1, 1969**	127,000/1967-1968	382	382
5¾% due January 1, 1970	60,000/1968-1969	240	180
6½% due June 1, 1974	250,000/1967-1973	2,000	2,000
6% due March 1, 1975	225,000/1968-1974	2,025	1,800
6% due April 1, 1976	100,000/1968-1975	1,000	900
5½% due April 1, 1976	460,000/1968-1975	4,600	4,140
6½% due August 1, 1976	160,000/1967-1975	1,600	1,600
6¼% due March 15, 1977	170,000/1968-1976	1,700	1,700
5½% due May 1, 1978	100,000/1969-1977	1,000	1,000
5¼% due September 1, 1979	50,000/1970-1978	500	500
5⅜% due July 1, 1980	390,000/1968-1979	6,500	6,500
5⅝% due November 15, 1980	333,000/1968-1979	5,550	5,550
6⅜% due September 1, 1981	364,000/1968-1980	1,200	5,200
Total senior subordinated notes payable		28,532	31,637

	Required annual payments (as of May 31, 1967)	November 30, 1966	May 31, 1967
		(Stated in thousands of dollars)	
Junior subordinated notes payable —			
6½% due August 1, 1969**	$ 104,000/1967-1968	$ 312	$ 312
6½% due December 1, 1969	1,200,000/1969	1,200	1,200
6¼% due April 15, 1970	300,000/1968-1969	1,050	750
6½% due September 15, 1970	55,000/1967-1969	220	220
6⅜% due March 1, 1975	150,000/1968-1974	1,350	1,200
6% due March 1, 1976	280,000/1968-1975	2,800	2,520
6¾% due March 15, 1977	55,000/1968-1976	550	550
5⅞% due June 1, 1978	100,000/1969-1977	1,000	1,000
5⅝% due July 1, 1980	300,000/1968-1979	5,000	5,000
6% due November 15, 1980	270,000/1968-1979	4,500	4,500
Total junior subordinated notes payable		17,982	17,252
Sinking fund debentures —			
5½% due March 1, 1968*		137	136
Total long term debt		154,514	197,939
Installments due within one year (included in current liabilities)		(6,820)	(6,578)
		$147,694	$191,361

* Payable in Canadian funds by a subsidiary of Avco Delta.
** Payable in Canadian funds.

Annual installments of long term debt at May 31, 1967 were due as follows: 1968, $11,744,000; 1969, $17,652,000; 1970, $16,016,000; and 1971, $15,601,000.

At May 31, 1967, Avco Delta had firm commitments from lenders for the placement of $12,300,000 of long term debt; $5,600,000 in 1967 and $6,700,000 in 1968.

NOTE 4 — Retained earnings

Under the agreements relating to the notes payable approximately $4,000,000 of Avco Delta's consolidated retained earnings at May 31, 1967 ($7,400,000 at November 30, 1966) was not restricted as to the payment of cash dividends on capital stock.

NOTE 5 — Supplementary profit and loss information

The following amounts have been charged to operating expense:

	Taxes, other than U. S. federal and Canadian income taxes*	Rents (principally real property)**	Depreciation
	(Stated in thousands of dollars)		
1965	$353	$1,402	$324
1966	594	1,971	553
Six months ended May 31, 1967	172	929	248

* Principally state income and municipal business taxes.
** Reference is made to the heading "History and Business of Avco — Plants and Properties" above for information concerning a new major supervisory office of Avco Delta which is being leased in Shaker Heights, Ohio, for 20 years at an annual rental of approximately $385,000.

THE PAUL REVERE CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1966	June 30, 1967 (unaudited)
	(Stated in thousands of dollars)	
Cash	$ 11,801	$ 5,612
Marketable securities, at cost (market value: 1966 — $79,269,000; 1967 — $14,739,000) (Note 9)	59,348	14,341
Receivables:		
Finance and savings and loan subsidiaries (including amounts due after one year):		
Retail installment	15,148	15,364
Other	647	314
	15,795	15,678
Unearned discount and service charges and allowance for losses	(2,304)	(2,561)
	13,491	13,117
Mortgage loans	117,963	119,476
	131,454	132,593
Other	3,166	3,038
Total receivables	134,620	135,631
Manufacturing inventories, at lower of cost (first-in, first-out) or market	6,948	6,628
Property, plant and equipment, at cost	22,600	23,705
Accumulated depreciation	(6,904)	(7,431)
Net property, plant and equipment	15,696	16,274
Investment in The Paul Revere Life Insurance Company (Notes 1, 2 and 3)	99,677	109,966
Investment in other non-consolidated affiliates, at cost:		
Avco Corporation (market value: $214,669,000) (Notes 8 and 9)	—	135,315
Other	2,898	2,468
	2,898	137,783
Excess of cost of investments in consolidated subsidiaries over net assets at dates of acquisition (Notes 1 and 5)	6,659	9,583
Other assets	3,608	5,479
	$341,255	$441,297

LIABILITIES, CAPITAL STOCK AND SURPLUS

	December 31, 1966	June 30, 1967 (unaudited)
Finance and savings and loan subsidiaries:		
Notes payable:		
Banks	$ 4,745	$ 5,495
Others (Note 6)	12,359	9,980
Savings and other deposits	101,021	105,161
	118,125	120,636
Accounts payable and accrued liabilities	3,599	6,558
Other notes payable (Notes 6 and 9)	22,641	87,455
U. S. federal and Canadian income taxes (Note 3)	4,530	5,821
Minority interest in consolidated subsidiaries:		
Preferred	650	650
Common (Note 4)	1,928	111
Contingencies (Note 8)		
Capital stock and surplus (Notes 1, 2 and 3):		
Capital stock, $5 par value; 2,655,543 shares authorized, issued and outstanding	13,278	13,278
Earned surplus	176,504	206,788
Total capital stock and surplus	189,782	220,066
	$341,255	$441,297

See accompanying notes.

THE PAUL REVERE CORPORATION

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Year ended December 31,			Six months ended June 30, 1967 (unaudited)
	1964 (unaudited)	1965	1966	
	(Stated in thousands of dollars)			
Balance at beginning of period (Notes 2 and 3)	$128,494	$143,580	$160,291	$176,504
Net income for period	18,886	20,781	20,628	32,528
	147,380	164,361	180,919	209,032
Cash dividends paid by the Company (per share: 1964 — $1.52; 1965 — $1.60; 1966 — $1.72; 1967 — $.86)	3,648	3,840	4,128	2,173
Cash dividends paid to minority shareholders of Paul Revere Life prior to pooling of interests	152	230	287	71
	3,800	4,070	4,415	2,244
Balance at end of period	$143,580	$160,291	$176,504	$206,788

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries except for Vernors, Inc., which is not significant, and The Paul Revere Life Insurance Company. The Company carries its investment in Paul Revere Life (see Note 2) at cost plus the Company's share of undistributed earnings since the dates of acquisition ($99,554,000 at December 31, 1966 and $107,747,000 at June 30, 1967), reduced by $5,585,000 and $3,810,000 at December 31, 1966 and June 30, 1967, respectively, of debt and preferred stock of consolidated subsidiaries of the Company held by Paul Revere Life. The investment includes cost in excess of equity in net assets at the dates of acquisition of $1,115,000 at December 31, 1966 and $1,439,000 at June 30, 1967 which amounts are not being amortized. The financial statements of the Company's Canadian subsidiary have been translated at an exchange rate of $1 Canadian = $.925 U. S.

At December 31, 1966, the Company's investment in its consolidated subsidiaries exceeded its equity in the net assets of such subsidiaries by $3,071,000 (June 30, 1967 — $5,539,000). Of this net amount, $6,659,000 (June 30, 1967 — $9,583,000) has been recorded as excess of cost of investments over net assets acquired and $3,588,000 (June 30, 1967 — $4,044,000), representing undistributed net income of such subsidiaries since the dates of acquisition, has been credited to consolidated earned surplus.

The financial statements of The Paul Revere Corporation (parent company) at December 31, 1966 and June 30, 1967, and for the three years and six months then ended, are summarized as follows:

THE PAUL REVERE CORPORATION
BALANCE SHEET
ASSETS

	December 31, 1966	June 30, 1967 (unaudited)
	(Stated in thousands of dollars)	
Investments in stock of subsidiaries, at cost plus equity in undistributed earnings since acquisition (Note 2)	$144,893*	$159,383*
Investments in other affiliates, at cost:		
Avco Corporation (market value: $214,000,000) (Notes 8 and 9)	—	135,084
Other	2,898	2,468
	2,898	137,552
Marketable securities (market value: 1966 — $67,542,000; 1967 — $1,414,000) (Note 9)	47,518	1,406
Cash	5,621	1,666
Other assets	558	473
	$201,488	$300,480

LIABILITIES, CAPITAL STOCK AND SURPLUS

	December 31, 1966	June 30, 1967 (unaudited)
Notes payable to banks	$ 8,015	$ 73,000
Other liabilities	3,691	7,414
	11,706	80,414
Capital stock and surplus, as shown by accompanying consolidated balance sheet:		
Capital stock	13,278	13,278
Earned surplus	176,504**	206,788**
	189,782	220,066
	$201,488	$300,480

STATEMENT OF INCOME

	Year ended December 31, 1964 (unaudited)	1965	1966	Six months ended June 30, 1967 (unaudited)
	(Stated in thousands of dollars)			
Dividend and interest income (including $1,200,000 received from Avco Corporation in 1967) (Note 9)	$ 2,257	$ 2,266	$ 2,612	$ 1,663
Equity in earnings of subsidiaries	9,360	12,961*	13,773*	12,107*
Net income of health insurance business (Notes 3 and 7)	1,974	1,842	1,743	—
Net realized capital gains less applicable income taxes	5,779	4,159	3,164	—
	19,370	21,228	21,292	13,770
Expenses	484	447	664	1,681
Income before extraordinary capital gain	18,886	20,781	20,628	12,089
Extraordinary capital gain, less income taxes of $7,363,000 (Note 9)	—	—	—	20,439
Net income	$18,886	$20,781	$20,628	$32,528

* Includes manufacturing subsidiary merged into the Company in May 1967 (Note 4).

** Includes equity in undistributed earnings of subsidiaries: 1966 — $103,142,000; 1967 — $111,791,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 2 — Investment in The Paul Revere Life Insurance Company

The accompanying financial statements of Paul Revere Life are stated in accordance with accounting practices authorized by the Division of Insurance of the Commonwealth of Massachusetts. In determining the Company's equity in earnings and net assets of Paul Revere Life for inclusion in these financial statements: (a) security investments are valued at cost instead of market, (b) certain assets classified as non-admitted by regulatory authorities are included, (c) the securities valuation reserve is classified as earned surplus rather than as a liability and (d) discounts on mortgage loans are taken into income over the life of the loans rather than upon retirement of the loans. As a result of these differences in accounting practice, equity in earnings and net assets of Paul Revere Life included in the financial statements of The Paul Revere Corporation differs in the aggregate from equity in amounts reflected in the financial statements of Paul Revere Life as follows: net income has been increased in 1964 by $160,000, and decreased by $99,000, $608,000 and $437,000 in 1965, 1966, and the six months ended June 30, 1967, respectively, and earned surplus at December 31, 1963 has been increased by $8,084,000.

Neither the separate accounts of Paul Revere Life nor the Company's equity in earnings and net assets of Paul Revere Life make any allowance for the fact that, under present accounting requirements prescribed by regulatory authorities for life insurance companies, costs incurred by Paul Revere Life upon issuance of new policies are charged against income in the period incurred rather than deferred and amortized over periods benefited, the result of which is to reduce net earnings in a period of growth and increase net earnings in a period of decline in new business.

NOTE 3 — Transfer of health insurance business to subsidiary and acquisition of minority interest

At the beginning of January 1, 1967, The Paul Revere Corporation changed its business purpose from that of an insurance company to that of a general business corporation. In connection with this change, the Company transferred its insurance business, valued at approximately $10,354,000 by an independent consulting actuary, to Paul Revere Life in exchange for 120,000 shares of newly issued stock of such company. In addition, investments with a market value of approximately $17,000,000 were transferred to Paul Revere Life to cover certain policy reserves and other insurance liabilities assumed by the subsidiary. Such investments, related reserves and other liabilities have been excluded from the consolidated financial statements of the Company and included in the financial statements of Paul Revere Life on a retroactive basis at December 31, 1966. See Note 7 for a summary of the health insurance operations for the three years ended December 31, 1966.

Subsequent to December 31, 1966, the Company received 255,543 additional shares of Paul Revere Life stock from such company's stockholders in exchange for an equivalent number of shares of the Company's common stock. The acquisition of these shares has been treated as a pooling of interests for accounting purposes. Accordingly, the accompanying consolidated financial statements at December 31, 1966 and for the three years then ended have been retroactively restated to reflect that transaction and the acquisition of the 120,000 shares of Paul Revere Life mentioned above, and earned surplus at December 31, 1963 has been increased by $9,197,000.

The transfer of the insurance business, as described above, constituted a tax-free exchange for federal income tax purposes. However, the release of the policyholders' surplus account substantially accumulated prior to 1964, which occurred at the time of the transfer, may result in federal income taxes of $2,798,000 and provision for such amount has been retroactively made by a charge to surplus as at January 1, 1964. The exchange of the Company's common stock for shares of Paul Revere Life stock constituted a reorganization for tax purposes under which no gain or loss will be recognized to the Company, Paul Revere Life or their respective stockholders.

NOTE 4 — Acquisitions

During 1965 and 1966, the Company acquired 68.67% of the outstanding common stock of FAR, Inc. (parent of Thompson Wire Company, the Company's manufacturing subsidiary) for cash. The accompanying consolidated income statement includes the results of operations of FAR, Inc. since July 1, 1965. In January 1967, the Company acquired the remaining outstanding stock of such company. In connection with the most recent acquisition, the Company agreed to pay an additional contingent price per share based upon net earnings of FAR, Inc. for 1967 and 1968, such contingent price not to exceed $1,320,000.

Subsequent to June 30, 1967, the Company acquired the remaining common and preferred stock (cost of $3,870,000) of Peoples National Fund, Inc. of which the Company previously owned 38% of the outstanding common stock. In connection therewith the Company issued $3,870,000 of its 5% subordinated promissory notes due as follows: 1968 — $720,000, 1969 — $350,000, 1970 —$700,000, 1971—$1,050,000, and 1972—$1,050,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 5 — Excess of cost of investments in subsidiaries over net assets at dates of acquisition

The Company presently does not intend to amortize such excess cost since, in its opinion, the investment value has not diminished.

NOTE 6 — Notes payable

Notes payable comprise the following:

	December 31, 1966	June 30, 1967
	(Stated in thousands of dollars)	
Finance and savings and loan subsidiaries (including long term debt due after one year: 1966 — $5,380,000; 1967 — $4,910,000):		
Long-term debt under loan agreements	$ 5,910	$ 5,480
Advances from Federal Home Loan Bank	5,911	4,500
Miscellaneous loans	538	—
	$12,359	$ 9,980
Other notes payable (including long term debt due after one year: 1966 — $14,000,000; 1967 — $70,710,000):		
6% demand notes payable to banks	$ 8,016	$ 8,000
5¾%-6% promissory notes	14,000	14,000
5¾% notes (See Note 9)	—	65,000
Other	625	455
	$22,641	$87,455

Aggregate annual maturities of long term debt (including amounts applicable to the $65,000,000 of 5¾% notes presently being refinanced) for the five years subsequent to June 30, 1967 are as follows: 1968 — $9,315,000; 1969 — $12,295,000; 1970 — $14,555,000; 1971 — $16,765,000; and 1972 — $18,865,000.

NOTE 7 — Net income of health insurance business

A condensed summary of the results of operations of the health insurance business, including investment income on a pro forma basis attributable to investments transferred to Paul Revere Life (see Note 3), for the three years ended December 31, 1966 is as follows:

	Year ended December 31,		
	1964 (unaudited)	1965	1966
	(Stated in thousands of dollars)		
Premium income	$12,092	$11,908	$11,658
Dividends and interest income	905	904	904
	12,997	12,812	12,562
Claims and other expenses:			
Benefits under health policies	6,373	6,261	6,060
Commissions on premiums	1,636	1,590	1,401
Increase (decrease) in health reserves	(110)	(62)	87
Salaries and wages	781	787	768
Taxes, other than federal income tax	360	337	211
Other	683	827	792
Total	9,723	9,740	9,319
Income before federal income tax	3,274	3,072	3,243
Provision for federal income tax	1,300	1,230	1,500
Net income	$ 1,974	$ 1,842	$ 1,743

The results of operations of the health insurance business for the six months ended June 30, 1967 have been included with those of Paul Revere Life.

NOTE 8 — Contingencies

The Company ceased to be an insurance corporation at the beginning of January 1, 1967. Section 44, Chapter 175 of the Massachusetts General Law provides that such a corporation continues liable under its original insurance contracts and accordingly can be called upon to establish a contingency fund to assure its ability to meet this obligation. However, in the re-insurance and assumption agreement between the Company and Paul Revere Life effective at the beginning of January 1, 1967, the latter company agreed to establish any contingency fund that might be required to assure a full discharge of all the insurance contract liabilities.

See the caption "Background Information" included elsewhere herein for information regarding an action instituted against the Company in April 1967.

NOTE 9 — Subsequent events

In February 1967 the Company purchased 4,000,000 shares (approximately 28%) of the common stock of Avco Corporation. In this connection the Company sold, at a gain, substantially all of its marketable securities, other than investments in stocks of majority-owned subsidiaries, and borrowed $65,000,000 from a bank, payable June 30, 1967 with interest at 5¾%. The due date has been extended to September 30, 1967 and management intends to refinance the loan with various banks on a five year basis. The agreement relating to the present loan provides that the Company will not incur further indebtedness except to commercial banks in amounts not exceeding $10,000,000, and it prohibits the parent company from selling or otherwise disposing, except for cash (which must then be used to prepay the loan), of any of its securities or other assets. It is expected that the agreement relating to the new term loan will also contain provisions restricting further indebtedness and the disposition of the parent company's securities and other assets and will provide for a pledge (subject to certain rights of substitution and withdrawal) of the 4,000,000 shares of Avco referred to above.

THE PAUL REVERE LIFE INSURANCE COMPANY

BALANCE SHEETS

ADMITTED ASSETS (NOTE 3)

	December 31, 1966	June 30, 1967 (unaudited)
	(Stated in thousands of dollars)	
Bonds and notes (Notes 1 and 2)	$127,696	$119,813
Investments in stocks (Notes 1 and 2):		
Other than affiliates:		
Preferred stocks	22,907	30,979
Common stocks	43,065	52,137
	65,972	83,116
Affiliates	7,050	4,766
	73,022	87,882
	200,718	207,695
Mortgage loans on real estate — first liens, less discounts: 1966 — $9,888,000; 1967 — $10,688,000 (Note 1)	123,999	131,950
Real estate — at cost, less accumulated depreciation: 1966 — $1,846,000; 1967 — $2,050,000:		
Home office properties	4,662	4,874
Investment properties	4,975	4,882
	9,637	9,756
Policy loans	9,951	10,780
Cash and bank deposits	6,929	11,217
Premiums and other considerations deferred and uncollected	7,406	7,677
Investment income due and accrued	3,083	3,112
Other assets and investments	1,822	3,631
	$363,545	$385,818

LIABILITIES, CAPITAL STOCK AND SURPLUS

	December 31, 1966	June 30, 1967 (unaudited)
Aggregate reserves for all policies (Notes 1 and 4):		
Life insurance	$175,797	$183,676
Accident and health insurance	46,383	47,121
Supplementary contracts without life contingencies	2,903	3,510
	225,083	234,307
Policy and contract claims	4,521	4,429
6% demand notes payable to banks — unsecured	3,016	2,000
Advance premiums	1,264	1,517
Funds on deposit and experience rating refund credits	6,605	6,277
Taxes, including federal income tax: 1966 – $2,560,000; 1967 – $2,389,000 (Note 5)	4,109	3,278
Other liabilities	2,273	2,269
Total liabilities	246,871	254,077
Contingencies (Notes 1 and 6)		
Securities valuation reserve (Note 1)	19,413	21,577
Capital stock and surplus (Notes 1, 5 and 7):		
Capital stock, $5 par value; 1,960,000 shares authorized, issued and outstanding	9,800	9,800
Surplus:		
Appropriated reserves:		
Group insurance	1,219	1,265
Mortgages and securities	26,065	36,851
	27,284	38,116
Unassigned surplus	60,177	62,248
Total surplus	87,461	100,364
Total capital stock and surplus	97,261	110,164
	$363,545	$385,818

See accompanying notes.

THE PAUL REVERE LIFE INSURANCE COMPANY

STATEMENT OF INCOME

	Year ended December 31, 1964 (unaudited)	1965	1966	Six months ended June 30, 1967* (unaudited)
	(Stated in thousands of dollars)			
Premiums and other considerations:				
Life insurance and annuities	$29,233	$31,073	$31,726	$17,958
Accident and health insurance	39,907	42,791	44,978	28,438
Considerations for supplementary contracts	929	1,030	676	917
Other	466	538	889	(5)
	70,535	75,432	78,269	47,308
Investment income:				
Interest on bonds and notes	4,835	5,817	6,936	3,647
Dividends:				
Unaffiliated companies	1,581	1,762	1,786	1,120
Affiliated companies	—	68	240	155
Interest on mortgage loans	5,390	5,722	6,018	3,123
Interest on policy loans	378	409	467	265
Real estate income	75	239	259	167
Other investment income	1	13	86	72
	12,260	14,030	15,792	8,549
Investment expenses:				
Salaries and wages	190	186	225	137
Real estate taxes	153	154	154	82
Real estate depreciation	132	172	112	53
Interest on bank notes	49	127	134	60
Other investment expenses	178	223	233	158
	702	862	858	490
Net investment income	11,558	13,168	14,934	8,059
Total	82,093	88,600	93,203	55,367
Death claims and other benefits	35,446	41,009	41,682	26,149
Increase in aggregate reserve for all policies	18,660	16,866	17,075	9,054
	54,106	57,875	58,757	35,203
Commissions and agency expenses	10,038	10,444	11,528	6,837
General insurance expenses:				
Salaries and wages	4,763	5,034	5,403	3,309
Other	2,772	3,327	3,532	2,555
	7,535	8,361	8,935	5,864
Insurance taxes, licenses and fees	1,847	1,861	1,918	1,206
Increase in loading on deferred and uncollected premiums	112	51	178	96
Total expenses	73,638	78,592	81,316	49,206
Income before federal income tax and realized capital gains	8,455	10,008	11,887	6,161
Provision for federal income tax (Note 5)	2,740	2,942	3,400	1,550
Income before realized capital gains	5,715	7,066	8,487	4,611
Realized capital gains	3,714	5,948	5,553	10,158
Less federal income tax	882	1,382	1,350	2,520
	2,832	4,566	4,203	7,638
Net income	$ 8,547	$11,632	$12,690	$12,249

* Includes health insurance business transferred from The Paul Revere Corporation (see Note 1).

See accompanying notes.

THE PAUL REVERE LIFE INSURANCE COMPANY

STATEMENT OF SURPLUS

	Year ended December 31, 1964 (unaudited)	1965	1966	Six months ended June 30, 1967 (unaudited)
	(Stated in thousands of dollars)			
Unassigned surplus:				
Balance at beginning of period	$44,896	$49,723	$55,325	$ 60,177
Net income for the period	8,547	11,632	12,690	12,249
	53,443	61,355	68,015	72,426
Other changes — add (deduct):				
Cash dividends paid (per share 1964 — $.52; 1965 — $.84; 1966 — $1.00; 1967 — $1.70)	(956)	(1,546)	(1,840)	(3,332)
Decrease (increase) in securities valuation reserve	(5,032)	(10,355)	4,797	(2,164)
Increase (decrease) in unrealized appreciation of investments (Note 5)	1,119	12,050	(10,634)	6,111
Net decrease (increase) in non-admitted assets (Note 3)	23	7	(93)	39
Decrease (increase) in appropriated reserves	1,126	(6,186)	532	(10,832)
Amount capitalized relating to 120,000 shares issued in exchange for health insurance business (Note 1)	—	—	(600)	—
	(3,720)	(6,030)	(7,838)	(10,178)
Balance at end of period	49,723	55,325	60,177	62,248
Appropriated reserves:				
Group insurance:				
Balance at beginning of period	756	830	916	1,219
Appropriated from unassigned surplus	74	86	303	46
Balance at end of period	830	916	1,219	1,265
Mortgages and securities:				
Balance at beginning of period	22,000	20,800	26,900	26,065
Appropriated (to) from unassigned surplus	(1,200)	6,100	(835)	10,786
Balance at end of period	20,800	26,900	26,065	36,851
Total surplus	$71,353	$83,141	$87,461	$100,364

See accompanying notes.

THE PAUL REVERE LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — Basis of presentation

The accompanying financial statements have been prepared, except as to form, on the basis of requirements prescribed for annual statements filed with the Division of Insurance of the Commonwealth of Massachusetts. The form of such statements is in accordance with the provisions of Regulation S-X under the Securities Act of 1933. The accounting authorized by the Division of Insurance differs in certain respects from accounting principles generally accepted for use by other industries, as follows: (a) expenses incurred upon issuance of new policies are charged against income in the year incurred rather than amortized over the periods benefited, the result of which is to reduce net earnings in a period of growth and to increase net earnings in a period of decline in new business, (b) certain non-admitted assets are excluded from the balance sheet (see Note 3), (c) security investments are carried in accordance with the basis prescribed by the National Association of Insurance Commissioners (see Note 2), (d) the securities valuation reserve is classified as a liability rather than as appropriated surplus and (e) discounts on mortgage loans are reported as income upon retirement of the loans rather than accruing such discounts over the life of the loans. A generally accepted basis for determining the aggregate effect of these differences on operations and financial position has not been established.

See Note 3 to the consolidated financial statements of The Paul Revere Corporation for a description of the transfer of the health insurance business to the Company at the beginning of January 1, 1967. Since this transaction was between related parties, no cost was assigned to the insurance business transferred from the parent company in exchange for 120,000 shares of capital stock, and unassigned surplus amounting to $600,000 was transferred to the Company's capital stock account. The accompanying balance sheet at December 31, 1966 gives pro forma effect to the transfer of assets, liabilities and reserves from The Paul Revere Corporation in accordance with the provisions of the reinsurance and assumption agreement effective January 1, 1967. See Note 8 to the consolidated financial statements of The Paul Revere Corporation.

NOTE 2 — Summary of investments

The following is a summary of investments in securities other than stocks of affiliates at December 31, 1966:

	Cost	Book value	Market value(a)(b)	Admitted asset value(c)
		(Stated in thousands of dollars)		
Bonds and notes(d):				
Government	$ 1,808	$ 1,828	$ 1,671	$ 1,828
States, territories and possessions	3,159	3,165	3,165	3,165
Political subdivisions of states, territories and possessions	3,478	3,481	3,481	3,481
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	23,707	23,766	23,639	23,766
Railroads	1,810	1,932	2,008	1,932
Public utilities	1,926	1,974	1,981	1,974
Industrial and miscellaneous:				
Majority-owned subsidiaries of The Paul Revere Corporation	4,279	4,279	4,279	4,279
Other affiliates of The Paul Revere Corporation	7,187	7,187	7,187	7,187
Other	80,791	80,465	79,643	80,084
	$128,145	$128,077	$127,054	$127,696
Stocks — other than affiliates:				
Preferred stocks:				
Public utilities	$ 4,240	$ 4,240	$ 4,240	$ 4,240
Banks, trust and insurance companies	600	600	600	600
Industrial and miscellaneous	18,309	18,077	18,067	18,067
	23,149	22,917	22,907	22,907

NOTES TO FINANCIAL STATEMENTS — (Continued)

	Cost	Book value	Market value(a)(b)	Admitted asset value(c)
		(Stated in thousands of dollars)		
Common stocks:				
Railroads	$ 685	$ 685	$ 1,220	$ 1,220
Public utilities	1,793	1,793	3,644	3,644
Banks, trust and insurance companies	379	379	711	711
Industrial and miscellaneous	23,931	23,931	37,490	37,490
	26,788	26,788	43,065	43,065
	$ 49,937	$ 49,705	$ 65,972	$ 65,972

(a) On the basis of valuation rates prescribed by the National Association of Insurance Commissioners.
(b) Admitted asset value in the case of preferred and common stocks.
(c) Amortized or investment value in the case of bonds.
(d) Bonds with an amortized or investment value of $7,373,000 were on deposit with state and provincial regulatory authorities.

The following is an unaudited summary of investments in securities other than stocks of affiliates at June 30, 1967:

	Cost	Book value	Market value(a)(b)	Admitted asset value(c)
		(Stated in thousands of dollars)		
Bonds and notes (d):				
Government	$ 1,841	$ 1,862	$ 1,675	$ 1,861
States, territories and possessions	3,634	3,640	3,410	3,640
Political subdivisions of states, territories and possessions	3,491	3,495	3,336	3,495
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	15,782	15,854	15,610	15,838
Railroads	1,810	1,953	1,985	1,932
Public utilities	1,910	1,961	1,926	1,957
Industrial and miscellaneous:				
Majority-owned subsidiaries of The Paul Revere Corporation	3,363	3,363	3,363	3,363
Other affiliates of The Paul Revere Corporation	5,188	5,190	5,189	5,189
Other	83,985	84,245	82,441	82,538
	$121,004	$121,563	$118,935	$119,813
Stocks — other than affiliates:				
Preferred stocks:				
Public utilities	$ 4,240	$ 4,240	$ 4,240	$ 4,240
Banks, trust and insurance companies	600	600	600	600
Industrial and miscellaneous	26,991	26,991	26,139	26,139
	31,831	31,831	30,979	30,979
Common stocks:				
Railroads	2,052	2,052	2,945	2,945
Public utilities	2,602	2,602	6,520	6,520
Banks, trust and insurance companies	1,097	1,097	1,361	1,361
Industrial and miscellaneous	22,467	22,467	41,311	41,311
	28,218	28,218	52,137	52,137
	$ 60,049	$ 60,049	$ 83,116	$ 83,116

(a) On the basis of valuation methods prescribed by the National Association of Insurance Commissioners.

(b) Admitted asset value in the case of preferred and common stocks.
(c) Amortized or investment value in the case of bonds.
(d) Bonds with an amortized or investment value of $7,403,000 were on deposit with state and provincial regulatory authorities.

NOTE 3 — Admitted assets

The assets in the accompanying balance sheet are stated at admitted asset value. The term "admitted asset value" means the assets stated at values at which they are permitted to be reported to the Division of Insurance of the Commonwealth of Massachusetts for balance sheet purposes in the annual report in accordance with the rules and regulations of this regulatory authority. The term "non-admitted assets" means assets other than assets which are so permitted to be reported.

Non-admitted assets, deducted in arriving at admitted asset values shown in the accompanying balance sheets, amounted to $1,119,000 at December 31, 1966 and $1,058,000 at June 30, 1967.

NOTE 4 — Policy reserves

The principal mortality tables, the rates of interest most generally used in calculating reserves, and the approximate percentage of life reserves based upon each of such tables were as follows:

	Percentage of life reserves	
	December 31, 1966	June 30, 1967
Policies issued prior to 1948:		
American Experience, 3½% net level premium	31%	30%
Policies issued 1948 to 1957:		
1941 Commissioners Standard Ordinary, 2½% net level premium	36	35
Policies issued 1948 to June 1963:		
1941 Commissioners Standard Ordinary, 3% net level premium	24	24
Policies issued July 1963 to date:		
1958 Commissioners Standard Ordinary, 3% net level premium	8	10

The principal portion of the accident and health reserves was determined using the Conference Modification of the Class (3) Disability Table combined with the 1941 Commissioners Standard Ordinary Table of Mortality, 3% net level premium.

NOTE 5 — Federal income taxes

The Life Insurance Company Income Tax Act of 1959 imposes tax at the regular corporate rates on life insurance companies. In general the tax is applied against the lesser of investment income, including capital gains, or gain from operations (net taxable income from all sources), each reduced by a portion of investment income considered applicable to policy reserves, plus one-half of the excess of the gain from operations over taxable investment income. Further, the 25% alternative tax is applicable to net realized long-term capital gains.

The Act also provides for additional taxes under certain conditions. In determining gain from operations, annual deductions are permitted applicable to certain nonparticipating contracts, accident and health and group life insurance. The amount of these annual deductions, together with the one-half of the excess of the gain from operations over taxable investment income which is not currently taxed, must be accumulated in a memorandum account designated "policyholders' surplus account". This account becomes taxable under certain conditions including distribution to shareholders as cash dividends.

At December 31, 1966, the Company had accumulated in unassigned surplus an aggregate policyholders' surplus account in the amount of $21,547,000 ($23,317,000 at June 30, 1967). If the amounts accumulated as policyholders' surplus became taxable to the Company, the resulting maximum tax liability would approximate $10,343,000 ($11,192,000 at June 30, 1967). Under present circumstances, the Company does not intend to effect any transactions or occurrences to cause the policyholders' surplus account to become taxable.

The increase in the policyholders' surplus account was $2,168,000, $2,775,000, $3,580,000 and $1,770,000, with an income tax effect of $1,084,000, $1,332,000, $1,718,000 and $850,000, for each of the years ended December 31, 1964, 1965 and 1966, and for the six months ended June 30, 1967, respectively.

No recognition is given in the accompanying financial statements to the federal income taxes which would be payable ($3,972,000 at December 31, 1966 and $5,330,000 at June 30, 1967) upon the realization of the unrealized gains on investments ($15,886,000 at December 31, 1966 and $21,317,000 at June 30, 1967) which are included in unassigned surplus.

NOTE 6 — Reinsurance

The Company presently follows the practice of reinsuring that portion of the risk in excess of $200,000 on the life of any one individual. The amount reinsured is greater for substandard risks and insureds under 10 or over 60 years of age. In this connection the Company is contingently liable for the portion of the policies reinsured in the event the reinsuring companies are unable to pay their portion of any resulting claim. Management is of the opinion that any liability in this connection is extremely unlikely.

The aggregate face amount of reinsurance ceded to other companies approximated $27,625,000 at December 31, 1966 and $26,772,000 at June 30, 1967.

NOTE 7 — Stockholders' equity

The holders of the capital stock are entitled to receive dividends when and as declared by the Board of Directors of the Company out of funds legally available therefor. Section 72 of Chapter 175 of the General Laws of Massachusetts restricts stock insurance companies to the payment of cash dividends in any year to an amount not exceeding 10% of the capital stock (or if dividends in any year are less than 10% the difference may be paid in subsequent years from surplus accumulations) out of their actual net surplus computed as required by law. However, larger dividends are permitted, as the directors consider prudent, out of the excess remaining after deducting from the assets certain securities and accounts in default, and all due and unpaid interest on any property of the Company.

THE FIRST BOSTON CORPORATION

CABLE ADDRESS
FIRSTCORP, NEW YORK

20 EXCHANGE PLACE
NEW YORK, N. Y. 10005

April 19, 1967

Mr. Kendrick R. Wilson, Jr.
Chairman of the Board
Avco Corporation
750 Third Avenue
New York, New York

Dear Mr. Wilson:

In connection with the contemplated combination of The Paul Revere Corporation and Avco Corporation, you have asked our opinion concerning the proposed basis for exchanging shares. We understand that the proposal contemplates an offer by Avco to the shareholders of Paul Revere of 1.8 shares of Avco Common Stock and 1 share of a proposed new Avco $3.20 Cumulative Convertible Preferred Stock for each share of Paul Revere held. The proposed new Convertible Preferred would have the following principal terms: dividend rate — $3.20; conversion feature — convertible at any time into 2 shares of Avco Common Stock; call feature — noncallable for five years, callable in the sixth year at $100, with such price declining in equal amounts annually to $80 in the 15th and subsequent years; and involuntary liquidating value — $40.

We believe that a combination providing for an exchange of shares on this proposed basis would be fair to and in the best interests of the stockholders of Avco Corporation, and we would recommend that stockholders of Avco vote in favor of such a proposal.

Very truly yours,

THE FIRST BOSTON CORPORATION

By THOMAS L. CASSIDY
Vice President

AVCO CORPORATION

Notice of

SPECIAL MEETING

and

PROXY STATEMENT

Special Meeting of Stockholders

OCTOBER 24, 1967